

**NEW ISSUE
FULL BOOK-ENTRY**

**RATINGS: Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA
(See "RATINGS" herein)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and all of the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.

**\$59,300,000
COUNTY OF MAUI
General Obligation Bonds, 2005 Series A, B and C**

Dated: Date of Delivery

Due: March 1, as shown on inside cover

The County of Maui General Obligation Bonds, 2005 Series A, B and C (collectively, the "Bonds") are being issued by the County of Maui (the "County") only as fully registered bonds under a book-entry system, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in the principal amount of \$5,000 or any integral multiple thereof within a single maturity through brokers or dealers who are, or who act through, participants of DTC ("Participants"). Purchasers of beneficial interests in the Bonds will not receive certificates representing their interest in the Bonds. See "BOOK-ENTRY ONLY SYSTEM" in this Official Statement.

Interest on the Bonds will be paid on September 1 and March 1 of each year, commencing September 1, 2005, until maturity, by the Director of Finance of the County, as Registrar and Paying Agent, to DTC. Disbursement of such payments to Beneficial Owners is the sole responsibility of Participants. See "BOOK-ENTRY ONLY SYSTEM" in this Official Statement. The Bonds are transferable and exchangeable only by the Bond Registrar as described in this Official Statement.

The Bonds are subject to optional redemption prior to maturity as herein described. See "THE BONDS – Redemption" in this Official Statement.

The Bonds are the absolute and unconditional general obligations of the County. The principal and interest payments on the Bonds, together with the principal of and interest payments on any other general obligation bonds of the County presently outstanding or issued after the date of issuance and delivery of the Bonds, are a first charge upon the general fund of the County, and the full faith and credit of the County are pledged to the punctual payment of such principal and interest. For the payment of the principal and interest on the Bonds, the County under the Constitution and laws of the State of Hawaii has the power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount on all real property subject to taxation by the County. See "THE BONDS – Security for the Bonds" and "FINANCIAL INFORMATION – General Fund" in this Official Statement.

The scheduled payment of principal and interest with respect to the Bonds of each series when due will be insured under a Financial Guaranty Insurance Policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein and "APPENDIX D" hereto for further information.



This cover page contains certain information for quick reference only. Investors must read the entire Official Statement to obtain information essential to making an informed decision.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, or withdrawal or modification of the offer without notice, and to certain other conditions, including the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii, and for the County by its Corporation Counsel. It is expected that the Bonds will be available for delivery to DTC in New York, New York, on or about January 26, 2005.

UBS Financial Services Inc.

January 6, 2005

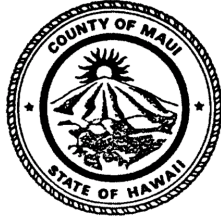
\$59,300,000
COUNTY OF MAUI
General Obligation Bonds,
2005 Series A, B and C

MATURITY SCHEDULE

<u>Due March 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2006	\$ 540,000	2.50%	2.10%
2007	595,000	2.75	2.30
2008	1,420,000	3.75	2.42
2009	3,845,000	3.00	2.57
2010	3,965,000	3.50	2.87
2011	3,350,000	3.50	3.11
2011	750,000	4.00	3.11
2012	4,245,000	3.50	3.30
2013	4,400,000	3.50	3.50
2014	4,550,000	5.00	3.62
2015	4,775,000	5.00	3.74
2016	3,075,000	3.80	3.87
2016	1,945,000	3.85	3.87
2017*	5,210,000	5.00	3.92
2018*	5,475,000	5.00	3.99
2019*	2,205,000	5.00	4.07
2020*	1,320,000	4.50	4.14
2021*	1,380,000	5.00	4.20
2022*	1,450,000	5.00	4.27
2023*	1,525,000	5.00	4.32
2024*	1,600,000	5.00	4.37
2025*	1,680,000	5.00	4.42

* Priced to par call on March 1, 2015.

COUNTY OF MAUI
200 South High Street
Wailuku, Maui, Hawaii 96793
(808) 270-7844



MAYOR

Alan M. Arakawa

COUNTY COUNCIL

G. Riki Hokama
Chair

Robert Carroll
Vice Chair

Michelle Anderson
Dennis “Danny” A. Mateo
Dain P. Kane
Charmaine Tavares

Jo Anne Johnson
Michael J. Molina
Joseph Pontanilla

OFFICERS

Keith A. Regan
Managing Director

Kalbert Young
Director of Finance

Danilo Agsalog
Budget Director

Suzanne B. Doodan, CPA
County Treasurer

Roy T. Hiraga
County Clerk

Wayne Y. Fujita, CPA
Deputy Director of Finance

Brian T. Moto, Esq.
Corporation Counsel

Traci Fujita Villarosa, Esq.
**First Deputy Corporation
Counsel**

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

The information contained in this Official Statement has been obtained from the County of Maui and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT
OF THE COUNTY OF MAUI
Relating to its**

\$59,300,000

**GENERAL OBLIGATION BONDS,
2005 SERIES A, B and C**

INTRODUCTION

This Official Statement, including the cover hereof and appendices hereto (the “Official Statement”), was prepared to provide information relating to the sale by the County of Maui (the “County”) of its General Obligation Bonds, 2005 Series A, B and C (collectively, the “Bonds”). The proceeds of the Bonds will be used to (i) provide funds for certain capital improvement projects of the County, and (ii) refund certain outstanding general obligation bonds previously issued by the County, as described under “CAPITAL IMPROVEMENT PROJECTS” and “REFUNDING PLAN,” respectively herein.

The Bonds will be general obligations of the County, and the interest and principal payments thereon, together with the principal and interest payments on any other general obligation bonds of the County currently outstanding or issued after the date of this Official Statement, are a first charge on the general fund of the County. The full faith and credit of the County are irrevocably pledged to the payment of the principal of and interest on the Bonds, and the County will levy *ad valorem* taxes without limitation as to rate or amount on all real property subject to taxation by the County for the payment of the principal of and interest on the Bonds. See “THE BONDS - Security for the Bonds” and “FINANCIAL INFORMATION - General Fund” herein.

This introduction is not a summary of this Official Statement. It is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto.

All summaries of the provisions of the Constitution and other laws of the State of Hawaii (the “State”), ordinances of the County and other documents contained in this Official Statement are qualified in their entirety by reference to the complete provisions of such laws and documents and do not purport to be complete statements of such laws or documents, copies of which may be obtained from the County upon request. Certain financial information regarding the County has been taken from the County’s Comprehensive Annual Financial Report, and other audits, budgets and financial reports, and their accompanying notes. For complete information, copies of the County’s Comprehensive Annual Financial Report may be obtained from the County upon request. Prospective purchasers of the Bonds should read this entire Official Statement.

CAPITAL IMPROVEMENT PROJECTS

A portion of the proceeds of the Bonds will be used to pay all or a portion of the costs of various capital improvements in accordance with appropriations in the Operating and Capital Improvement Program Ordinances for the County's fiscal years ending June 30, 2002 through June 30, 2005. These capital improvements include land acquisition for and development, construction activities, and purchase of equipment relating to parks, community centers, drainage facilities, landfills, fire stations, wastewater facilities and roads. In addition, a portion of the proceeds of the Bonds will be loaned to Maui Economic Concerns of the Community, Inc., a non-profit Hawaii corporation (the "Borrower"), for certain housing facilities to be constructed by the Borrower.

REFUNDING PLAN

It is expected that a portion of the proceeds of the Bonds will be issued to refund a portion of the County's outstanding General Obligation Refunding Bonds, 1998 Series A, General Obligation Bonds, 1998 Series C and General Obligation Bonds, 1999 Series A (respectively, the "Refunded 1998A Bonds," the "Refunded 1998C Bonds" and the "Refunded 1999A Bonds," and collectively, the "Refunded Bonds").

In connection with the refunding, proceeds of the Bonds will be deposited into special escrow funds (collectively, the "Escrow Funds") to be established with Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), under the terms of an Escrow Agreement to be entered into between the County and the Escrow Agent. Pursuant to the Escrow Agreement, the Escrow Funds will be held by the Escrow Agent as separate, segregated escrow funds for the sole benefit of the holders of the applicable Refunded Bonds and will be used: (a) to pay the maturing principal of and interest on the Refunded 1998A Bonds and Refunded 1998C Bonds through and including March 1, 2008 and to redeem the remainder of such Refunded 1998A Bonds and Refunded 1998C Bonds on such date at a redemption price equal to 101% of the principal amount thereof, plus accrued interest; and (b) to pay the maturing principal of and interest on the Refunded 1999A Bonds through and including March 1, 2009 and to redeem the remainder of such Refunded 1999A Bonds on such date at a redemption price equal to 101% of the principal thereof, plus accrued interest. Pending such application, moneys on deposit in the Escrow Funds will be invested in certain non-callable direct obligations of the United States of America (the "Escrow Fund Investments") payable as to principal and interest at the times and in the amounts necessary to pay, when due, the interest on and principal of all Refunded Bonds.

In connection with the issuance of the Bonds and the refunding of the Refunded Bonds, the County will obtain a verification report from Causey, Demgen & Moore, Inc., independent certified public accountants, as to the mathematical accuracy of certain computations pertaining to the Escrow Funds and the Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein for a further discussion of such verification report.

SOURCES AND USES OF FUNDS

The following table presents the estimated sources and application of moneys realized upon the sale of the Bonds:

Table 1
COUNTY OF MAUI
Sources and Uses of Funds

SOURCES:

Principal Amount of Bonds	\$59,300,000.00
Net Original Issue Premium	<u>2,917,210.15</u>
TOTAL SOURCES	\$62,217,210.15

USES:

Proceeds Deposited to Capital Project Funds	\$21,961,229.45
Proceeds Deposited to Escrow Funds	39,855,234.99
Costs of Issuance*	<u>400,745.71</u>
TOTAL USES	\$62,217,210.15

* Includes Underwriter's discount and bond insurance premium.

THE BONDS

General Terms

The Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement, will be dated and bear interest from the date of their delivery, will mature on the dates and in the principal amounts and will bear interest (computed on the basis of a 360-day year) payable on September 1 and March 1 of each year, commencing on September 1, 2005, at the respective rates set forth on the inside front cover of this Official Statement.

The Bonds will be issued in fully registered form in the denomination of \$5,000 each, or integral multiples thereof. The form and terms of the Bonds are as provided in the Certificate of the Director of Finance of the County providing for the issuance of the Bonds and setting forth the details thereof (the "Certificate").

Transfer and Exchange

Depository Trust Co. ("DTC"), through its nominee Cede & Co., will initially be the sole registered holder (the "Owner") of the Bonds. Each Bond will be transferable or exchangeable only upon the Bond registration books (the "Bond Register") by DTC's nominee as the Owner thereof or by its attorney duly authorized in writing by such Owner upon presentation and surrender of such Bond to the Director of Finance of the County, as Registrar (the "Registrar"), together with a written instrument of transfer satisfactory in form to the Registrar, duly executed by the Owner or such duly authorized attorney. Upon the surrender of any Bond or Bonds for transfer or exchange, the Registrar will redeliver in the name of the transferee or transferees or

exchangee one or more new Bond or Bonds of the same aggregate principal amount, series, maturity and interest rate as the surrendered Bond or Bonds, in any authorized denomination and in the manner and subject to the conditions set forth in the Certificate. All transfers and exchanges of any Bond will be made without expense to the registered holder of such Bond, except that the Registrar will require the payment by the registered holder of the Bond requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange. All Bonds surrendered for transfer or exchange will be canceled. All transfers or exchanges of the Bonds will be subject to such provisions as may be prescribed from time to time by the Registrar.

The County, the Registrar and the Director of Finance of the County, as Paying Agent (the "Paying Agent"), may deem and treat the person in whose name a Bond is registered upon the Bond Register as the absolute owner of such Bond for the purpose of receiving payment of the principal thereof, premium, if any, and interest thereon and for all other purposes, and shall not be affected by any notice to the contrary.

Authorization

The Bonds are issued under the provisions of the Constitution and laws of the State, including Chapter 47, Hawaii Revised Statutes, as amended, the Charter of the County (the "County Charter") and proceedings of the Council of the County (the "County Council") duly taken thereunder. The Bonds are issued in accordance with the provisions of several authorizing ordinances enacted by the County Council and approved by the Mayor of the County (the "Bond Ordinance") and the Certificate issued pursuant to the Bond Ordinance by the Director of Finance of the County.

Security for the Bonds

Under the Constitution and laws of the State, the Bonds are the absolute and unconditional general obligations of the County. The principal and interest payments on the Bonds are a first charge on the general fund of the County on a parity with the principal and interest payments of the following outstanding general obligation bonds or any other general obligation bonds of the County issued after the date of the Bonds. The following table sets forth the amount of general obligation bonds of the County outstanding, including reimbursable general obligation bonds, as of June 30, 2004:

Table 2
COUNTY OF MAUI
Outstanding General Obligation Bonds
(As of June 30, 2004)

<u>Date of Issue</u>	<u>Outstanding Principal*</u>	<u>Nonreimbursable General Obligation</u>	<u>Reimbursable General Obligation</u>
8/27/1982	\$ 833,500	\$ 833,500	\$ -0-
1/13/1994	11,965,000	-0-	11,965,000
4/21/1998	35,095,000	35,095,000	-0-
7/21/1998	9,535,000	-0-	9,535,000
5/05/1999	10,270,000	10,270,000	-0-
6/05/2001	20,935,000	20,935,000	-0-
10/25/2001	25,930,000	25,930,000	-0-
5/23/2002	25,000,000	25,000,000	-0-
9/10/2002	24,745,000	24,479,863	265,137
6/03/2003	41,125,000	38,489,858	2,635,142
3/17/2004	<u>23,110,000</u>	<u>15,165,000</u>	<u>7,945,000</u>
TOTAL	<u>\$228,543,500</u>	<u>\$196,198,221</u>	<u>\$32,345,279</u>

* Includes the Refunded Bonds.

Source: County of Maui.

Under the Constitution and laws of the State, the full faith and credit of the County are pledged to the payment of such principal and interest. For the payment of principal and interest on its general obligation bonds, the County, under the Constitution and laws of the State, has the power and is obligated to levy *ad valorem* taxes on all real property subject to taxation by the County, without limitation as to rate or amount. The rights and remedies of anyone seeking enforcement of the Bonds are subject to applicable bankruptcy laws and other laws affecting creditors rights, to principles of equity if equitable remedies are sought and to judicial discretion.

The County's outstanding general obligation bonds issued to date are insured by bond insurance, with the exception of the outstanding bonds of the County issued on August 27, 1982 and June 5, 2001.

Market Risk

The market value of municipal securities, including the Bonds, can be affected by such factors as general economic conditions in the world and the United States, inflation rate levels or trends, County finances, future State legislative actions and the ratings on the Bonds. Consequently, there can be no assurance of continued marketability of the Bonds at their originally offered price level.

Registration and Payment of the Bonds

Principal of and premium, if any, on the Bonds will be payable upon surrender thereof at the office of the Director of Finance of the County, as Registrar and Paying Agent, in Wailuku, Maui, Hawaii, or at the office of a successor Paying Agent appointed from time to time by the County. Subject to such different arrangements as may be agreed upon with DTC or its successor as depository (the "Depository"), interest on the Bonds shall be payable by check mailed to each holder of a Bond in whose name the Bond is registered upon the Bond Register as of the close of business on the fifteenth (15th) day (whether or not a business day) of the calendar month next preceding each March 1 and September 1 at its address as it appears on the Bond Register kept at the office of the Registrar. Principal of and interest and premium, if any, on the Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

Redemption

The Bonds maturing on or before March 1, 2015 are not subject to redemption prior to maturity. The Bonds maturing on and after March 1, 2016 are subject to redemption, at the option of the County, in whole or in part at any time on or after March 1, 2015 in such order of maturity as may be determined by the County and by lot within a maturity. Any such redemption of the Bonds shall be made at a redemption price equal to 100% of the principal amount thereof (or the portion of such principal amount to be redeemed), together with accrued interest on such principal amount to the date fixed for redemption.

Selection of Bonds for Redemption

Any Bond or portion thereof to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof. In selecting Bonds for redemption by lot, each Bond in a denomination of \$5,000 and each \$5,000 principal portion of a Bond in a denomination in excess of \$5,000 will have an equal probability of being selected for redemption.

So long as the book-entry system for the Bonds shall remain in effect, the foregoing provisions with respect to redemption of the Bonds by lot shall be subject to and modified by the rules of the Depository.

Notice of Redemption

Notice of redemption of any Bond to be redeemed shall state the designation, date, number and maturity of such Bond to be redeemed, the portion of the principal sum of such Bond to be redeemed, the date fixed for redemption thereof, the premium payable upon such redemption, and that from and after such redemption date interest on the principal amount of such Bond so redeemed shall cease to accrue and become payable. If less than the entire principal sum of such Bond is to be redeemed, the notice shall also state that such Bond must be surrendered in exchange for the principal amount thereof to be redeemed and the issuance of a new Bond equaling in principal amount that portion of the principal sum thereof not redeemed.

Any such notice shall be given not less than thirty (30) days prior to the date fixed for redemption by first-class mail to each holder of a Bond in whose name the Bond is registered upon the Bond Register as of the close of business on the forty-fifth (45th) day (whether or not a business day) next preceding the date fixed for the redemption of the Bond; provided, however, that the failure of the registered holder of the Bond to receive such notice or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of the Bonds.

If on or before the redemption date there shall be deposited with the Paying Agent funds sufficient for, and set aside solely for, the payment of the principal amount of the Bonds to be redeemed, the then applicable redemption premium and the interest accrued on the principal amount to be redeemed to the date of redemption, the Bonds so called for redemption shall become due and payable upon such redemption date and interest on the Bonds (or any portion thereof) so called for redemption shall cease to accrue from and after the date fixed for redemption.

Open Market Purchase

The County has reserved the right to purchase any of the Bonds in the open market at any time at any price. Bonds so purchased will be canceled.

No Acceleration

Neither a bond owner nor any bond owner's representative has the right to accelerate the payment of debt service on the Bonds upon any default in the payment of the Bonds or otherwise.

BOOK-ENTRY ONLY SYSTEM

Unless otherwise noted, the description which follows of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of interest and other payments on the Bonds to Participants (defined below) or Beneficial Owners (defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other bond-related transactions by and among DTC, the Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC. Accordingly, the County and the Underwriters do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered

pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of redemption proceeds, principal and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository), subject to DTC's rules. In the event of such discontinuation, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

In reviewing this Official Statement it should be understood that while the Bonds are in the book-entry system, references in other sections of this Official Statement to Owners should be read to include the person for which a Direct or Indirect Participant acquires an interest in the

Bonds, but: (i) all rights of ownership must be exercised through DTC and the system of book-entry; and (ii) notices that are to be given to Owners by the County will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Direct Participants by its usual procedures so that the Direct and Indirect Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

The County will have no responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or any Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest on the Bonds, or (iii) any notice which is permitted or required to be given to Owners under the Bond Ordinance or the Certificate (except such notice as is required to be given by the County to DTC), or (iv) the selection by DTC of any Direct Participant to receive payment in the event of a partial redemption of the Bonds, or (v) any consent given or other action taken by DTC as Owner of the Bonds, or (vi) any other event or purpose.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (“MBIA”) for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA’s policy.

MBIA’s policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the County to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds of such series as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA’s policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds of such series pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA’s policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA’s policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA’s policy also does not insure against nonpayment of

principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading “BOND INSURANCE.” Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004 MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA “AAA.”

Fitch Ratings rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

DEBT SERVICE SCHEDULE

The following table sets forth the principal and interest requirements for the Bonds and all other outstanding general obligation bonds of the County after issuance of the Bonds, in each case rounded to the nearest dollar.

Table 3
COUNTY OF MAUI
Aggregate Debt Service*

Fiscal Year Ending June 30	Outstanding Bonds Debt Service**	2005 Series A, B and C Debt Service	Total Debt Service
2005	\$ 24,770,616	-0-	\$ 24,770,616
2006	25,385,281	\$ 3,316,735	28,702,016
2007	25,397,893	3,112,195	28,510,088
2008	25,340,310	3,920,832	29,261,143
2009	22,835,039	6,292,582	29,127,621
2010	21,083,414	6,297,232	27,380,646
2011	18,311,338	6,293,457	24,604,796
2012	14,818,460	6,291,207	21,109,667
2013	13,105,526	6,297,632	19,403,158
2014	10,723,426	6,293,632	17,017,058
2015	9,155,297	6,291,132	15,446,430
2016	7,786,500	6,297,383	14,083,882
2017	7,690,155	6,295,650	13,985,805
2018	7,683,692	6,300,150	13,983,842
2019	6,293,387	2,756,400	9,049,787
2020	6,292,450	1,761,150	8,053,600
2021	4,973,869	1,761,750	6,735,619
2022	3,104,062	1,762,750	4,866,812
2023	-0-	1,765,250	1,765,250
2024	-0-	1,764,000	1,764,000
2025	-0-	1,764,000	1,764,000
TOTAL	<u>\$254,750,716</u>	<u>\$86,635,122</u>	<u>\$341,385,838</u>

* Totals may not agree due to rounding.

** Excludes debt service on the Refunded Bonds.

Source: County of Maui.

DEBT INFORMATION

General

The creation of general debt by the counties in the State is governed by the Constitution of the State, the applicable provisions of the Hawaii Revised Statutes and, in the case of the County, by the County Charter.

The Constitution establishes a sum equal to 15% of the total of the assessed values for tax rate purposes of real property in any county, as determined by the last tax assessment rolls pursuant to law, as the limit of the funded debt of each county that is outstanding and unpaid at any time. The Constitution provides that all general obligation bonds shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal

installments of both principal and interest. The first installment of principal must mature not later than five years from the date of issue of such series, and the last installment must mature not later than twenty-five years from the date of such issue; except that the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds, and on bonds constituting instruments of indebtedness under which a county incurs a contingent liability as a guarantor, must mature not later than thirty-five years from the date of issue of such bonds.

The payments of principal and interest on general obligation bonds of a county are a first charge on the general fund of such county. In determining the funded debt of the State or any political subdivision, the Constitution provides for the following exclusions:

1. Bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.
2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.
3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.
4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.
5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.
6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for a county, but only for as long as reimbursement by the county to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after November 7, 1978 (the date of ratification of Constitutional amendments), the consent of the governing body of the county has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such county.
8. Bonds constituting instruments of indebtedness under which the State or any county incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded by the Constitution; provided that the State or such county shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State or such county as provided by law.
9. Bonds issued by or on behalf of the State or by any county to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year.

Chapter 47, Hawaii Revised Statutes, is the general law for the issuance of general obligation bonds of counties, and sets forth the provisions relating to the issuance and sale of general obligation bonds, inclusive of details such as method of authorization, maximum maturities, maximum interest rates, denominations, method of sale, form and execution of such bonds, prior redemptions, refunding, and other matters.

The Constitution provides that a political subdivision shall annually determine and certify the amount of exclusions from its funded debt. The State Legislature has provided for the annual determination and certification as of each July 1.

Whenever the County proposes to issue bonds, Section 47C-3, Hawaii Revised Statutes, as amended, requires that the Director of Finance of the County must prepare a supplemental summary of the indebtedness of the County as of a date within 30 days of the delivery of such bonds. Table 4 below presents the County's supplemental summary of funded debt in connection with the issuance of the Bonds.

Table 4
COUNTY OF MAUI
Statement of Funded Debt
As of January 1, 2005

Principal Amount of County of Maui Bonds and Loans Outstanding:

General Obligation Bonds	\$ 187,068,649
General Obligation Bonds for which reimbursement is required from Department of Water Supply	31,584,851
Loans Payable: State Revolving Fund	<u>29,925,344</u>
Total - Outstanding Principal	248,578,844

Less Exclusions:

General Obligation Bonds for which reimbursement is required from Department of Water Supply	<u>29,925,344</u>
Net Principal Amount of Bonds and Loans Outstanding	<u>218,653,500</u>

Debt Margin:

15% of total assessed values for tax rate purposes as of latest tax assessments rolls as of January 1, 2004*	3,334,006,918
Less net funded debt of the County as of January 1, 2005	<u>218,653,500</u>
Net Legal Debt Margin	<u>\$3,115,353,418</u>

* 2005 figure not available.

Source: County of Maui Financial Records.

Outstanding Obligations

The following table sets forth the County's outstanding obligations for the ten fiscal years ended June 30, 1995 through 2004.

Table 5
COUNTY OF MAUI
Outstanding Obligations

<u>Fiscal Year Ended June 30</u>	<u>Outstanding General Obligation Bonds¹</u>	<u>General Obligation Debt Per Capita²</u>	<u>Outstanding Loans</u>
1995	\$193,888,500	\$1,645	\$18,107,260
1996	199,770,000	1,655	20,013,475
1997	208,130,000	1,695	25,085,274
1998	225,603,000	1,810	29,751,198
1999	236,559,000	1,875	31,736,676
2000	238,058,000	1,856	29,169,082
2001	235,930,000	1,787	22,829,852
2002	248,240,000	1,851	23,463,389
2003	243,678,000	1,817	22,070,154
2004	228,543,500	1,704	31,014,724

¹ Prior to permitted exclusions.

² Based on population estimates from the 2003 Maui County Data Book-Resident Population. General Obligation debt per capita figures for 2003 and 2004 are based on 2002 population estimates.

Source: County of Maui.

Special Assessment Indebtedness

The Hawaii Revised Statutes provide that whenever in the opinion of the County Council it is desirable to make a special improvement in the County the cost thereof shall be assessed against the land specifically benefited. Each assessment constitutes a lien against each lot or parcel of land assessed until paid. Such lien has priority over all other liens, except that it is on a parity with the lien of property taxes and liens for other public purposes. There are no such special assessments in the County at this time. The Hawaii Revised Statutes also authorize counties to enact ordinances providing for the creation of community facilities districts and tax increment districts to finance special improvements in the counties. The County has not enacted such enabling legislation.

FINANCIAL INFORMATION

The taxes and other revenues discussed below account for substantially all the tax receipts and other revenues of the County. All tax receipts are credited to either the General Fund or the Special Revenue Fund of the County.

Accounting

Pursuant to Section 9-13 of the Charter, the County Council is required once every year to obtain an independent audit of all of the various funds and accounts of the County for the immediately preceding fiscal year. The audit is to be made by a certified public accountant or a firm of certified public accountants designated by the County Council. The audit of the financial

statements for the year ended June 30, 2004, was performed by Russell Yamane & Associates CPAs, Inc. Such audit includes an examination of the Department of Water Supply.

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the Financial Statements, into the following generic fund types and broad fund categories: The General Fund accounts for all activities not required to be accounted for in other funds. The Special Revenue Funds accounts for activities associated with specific restricted revenue sources. The Debt Service Fund accounts for the repayment of general obligation debt not expected to be repaid by proprietary funds and the related resources. The Capital Projects Funds account for specific construction projects not expected to be financed by proprietary funds. The Enterprise Funds account for activities that are predominantly self-supporting which render service to the public on a user charge basis. The Trust & Agency Funds account for monies held by the County in a fiduciary capacity. The General Fixed Assets Account Group records the cost of fixed assets benefiting the County in general. The General Long-Term Debt Account Group records the general obligations of the County.

The Government Finance Officers Association of the United States and Canada has awarded the County a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The County has received this award for 21 consecutive years. The award has not yet been given for the fiscal year ended June 30, 2004.

General Fund

The General Fund is utilized to account for all financial resources except those required to be accounted for in another fund. The primary sources of revenues of the General Fund are taxes on real property and an allocation of the State transient accommodations tax as described below.

Real Property Taxation

Under the Constitution of the State, all functions, powers and duties relating to taxation of real property are vested in the counties.

In the case of the County, Chapter 3.48 of the Maui County Code governs administration, setting of tax rates, assessments and collection of real property tax, including exemption therefrom, dedication of land, and appeals. All real property in the County, except as exempted or otherwise taxed, is subject each year to a tax upon the fair market value thereof. Land is classified and taxed as: (1) improved residential, (2) unimproved residential, (3) apartment, (4) hotel and resort, (5) commercial, (6) industrial, (7) agricultural, (8) conservation, and (9) homeowners. In determining the value of land, other than land classified and used as

agricultural, consideration is given to its highest and best use, selling prices and income, productivity, actual and potential use, advantage or disadvantage of factors such as location, accessibility, transportation facilities, availability of water and its cost, easements, zoning, dedication as to usage, and other influences which fairly and reasonably bear upon the question of values. The value of buildings is the cost of replacement less depreciation, with consideration given to age, condition, utility or obsolescence. Real property owned by the respective governments of the United States, the State of Hawaii and the several counties of the State is exempt from taxation.

Real property owned as operating property by public utilities and hospitals are excluded from taxation. In the case of public utilities, however, the State is required by law to share with the counties, in lieu of county real property taxes, a portion of the tax on “public service companies” imposed by the State. See “Other Revenues” below.

In addition, real property occupied as the principal residence of the owner is exempt from taxation up to the amount of \$110,000, and up to the amount of \$130,000 for persons 70 years of age and over.

County homeowners are afforded tax relief under the County’s “Circuit Breaker” Program, which limits a homeowner’s real property taxes to three percent (3%) of adjusted gross income. The program is available for any homeowner with a homeowner’s exemption. In fiscal year 2004, 630 homeowners qualified for the Circuit Breaker Program at a cost to the County (in the form of reduced real property tax revenues) of \$351,479. It is anticipated that 669 homeowners will qualify for this program in fiscal year 2005 at a cost of \$490,448.

Additionally, to encourage agriculture, the value of land classified and used for agriculture, whether or not dedicated for such use as next referred to, is the value of such land for such use without regard to its value for its highest and best use. An owner of land, regardless of whether such land is situated in an agricultural district, a rural district, a conservation district or urban district, may elect to dedicate his land for a specific ranching or other agricultural use, provided such land is used for such purpose at the time of dedication. If the dedication is approved, such land shall thereafter be taxed as agricultural land. In addition, land situated in any agricultural district may be declared to be for a specific ranching or other agricultural use for a period of 10 or 20 years, and if approved, shall be taxed at its assessed value in the agricultural use.

The Council recently enacted Ordinance No. 3227, effective January 1, 2005, which amends the County’s real property tax laws by creating a new classification of taxable property for timeshare properties. It is not possible to predict with any degree of certainty the extent to which such legislation may affect the County’s real property tax revenues.

From time to time, proposals to amend the County’s real property tax laws, including tax relief proposals by community groups, are submitted to the County Council for consideration. Certain of these proposed amendments, if enacted, could have the effect of reducing the County’s real property tax revenues. No assurance can be given as to whether or in what form

any such proposals may be enacted, or as to the potential effects of such proposals, if enacted, on the County's real property tax revenues.

The above property tax limitations and proposed amendments do not affect the ability or obligation of the County to levy taxes, including, without limitation, taxes to pay principal of and interest on the Bonds and other outstanding general obligation bonds of the County.

The real property tax base for the County is 100% of fair market value. The amount of net taxable real property is determined by deducting from the amount of assessed real property value the real property exempted and excluded from taxation, which includes 50% of the assessed value of real property under appeal by owners.

Table 6 presents the net taxable values for each class of property within the County and the tax rates applicable thereto for the five fiscal years through the fiscal year ending June 30, 2005. Table 7 presents annual assessments, levies, average tax rates and tax collections for the five fiscal years through the fiscal year ending June 30, 2005. Table 8 presents the County's ten largest taxpayers based on tax levy for the fiscal year ended June 30, 2004.

Table 6
COUNTY OF MAUI
Net Taxable Value and Tax Rate by Classes of Property
(Values in 000s)

	<u>2001</u>		<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>	
	<u>Value</u>	<u>Rate</u>	<u>Value</u>	<u>Rate</u>	<u>Value</u>	<u>Rate</u>	<u>Value</u>	<u>Rate</u>	<u>Value</u>	<u>Rate</u>
Net Taxable Land										
Improved Residential	\$ 1,543,531	\$5.04	\$ 1,682,657	\$4.93	\$ 1,992,867	\$4.93	\$ 2,113,111	\$5.86	\$ 2,609,728	\$5.86
Apartment	558,653	5.04	567,328	4.93	642,937	4.93	613,743	5.86	656,919	5.86
Hotel/Resort	1,047,229	8.48	1,115,943	8.30	1,191,416	8.30	1,171,063	8.30	1,375,251	8.30
Commercial	596,069	6.89	633,776	6.75	655,969	6.75	635,548	6.75	710,077	6.75
Industrial	565,792	6.89	582,476	6.75	574,754	6.75	511,953	6.75	525,932	6.75
Agricultural	915,674	5.04	996,108	4.93	1,094,479	4.93	1,129,397	4.93	1,442,391	4.93
Conservation	266,695	5.04	287,821	4.93	326,198	4.93	307,945	4.93	282,321	4.93
Unimproved Residential	300,826	5.04	307,604	4.93	287,297	4.93	292,069	5.86	330,021	5.86
Homeowners	<u>2,115,372</u>	<u>3.71</u>	<u>2,381,288</u>	<u>3.63</u>	<u>2,805,842</u>	<u>3.63</u>	<u>3,197,618</u>	<u>3.55</u>	<u>3,999,625</u>	<u>3.55</u>
Total All Classes ¹	<u>\$ 7,909,841</u>		<u>\$ 8,555,000</u>		<u>\$ 9,571,760</u>		<u>\$ 9,972,447</u>		<u>\$11,932,264</u>	
Net Taxable Building										
Improved Residential	\$ 795,841	\$5.04	\$ 885,863	\$4.93	\$ 1,036,565	\$4.93	\$ 1,107,814	\$5.86	\$ 1,070,553	\$5.86
Apartment	1,203,780	5.04	1,413,472	4.93	1,645,154	4.93	1,861,210	5.86	1,811,828	5.86
Hotel/Resort	2,824,438	8.48	3,169,121	8.30	3,386,161	8.30	3,683,629	8.30	4,499,079	8.30
Commercial	350,290	6.89	424,957	6.75	446,233	6.75	459,156	6.75	503,049	6.75
Industrial	391,709	6.89	417,579	6.75	448,383	6.75	442,554	6.75	446,925	6.75
Agricultural	364,981	5.04	406,250	4.93	431,676	4.93	476,745	4.93	524,429	4.93
Conservation	23,845	5.04	28,034	4.93	28,931	4.93	31,135	4.93	28,626	4.93
Unimproved Residential	106	5.04	2,355	4.93	330	4.93	10,218	5.86	2,686	5.86
Homeowners	<u>1,200,879</u>	<u>3.71</u>	<u>1,397,906</u>	<u>3.63</u>	<u>1,594,168</u>	<u>3.63</u>	<u>1,825,443</u>	<u>3.55</u>	<u>1,407,274</u>	<u>3.55</u>
Total All Classes ¹	<u>\$ 7,155,869</u>		<u>\$ 8,145,537</u>		<u>\$ 9,017,602</u>		<u>\$ 9,897,904</u>		<u>\$10,294,449</u>	
Net Taxable Real Property										
Improved Residential	\$ 2,339,372		\$ 2,568,520		\$ 3,029,432		\$3,220,925		\$ 3,680,281	
Apartment	1,762,433		1,980,800		2,288,091		2,474,953		2,468,747	
Hotel/Resort	3,871,667		4,285,064		4,577,577		4,854,692		5,874,330	
Commercial	946,358		1,058,733		1,102,202		1,094,704		1,213,126	
Industrial	957,502		1,000,055		1,023,138		954,507		972,857	
Agricultural	1,280,655		1,402,357		1,526,155		1,606,142		1,966,820	
Conservation	290,540		315,855		355,130		339,080		310,947	
Unimproved Residential	300,932		309,959		287,627		302,287		332,707	
Homeowners	<u>3,316,251</u>		<u>3,779,194</u>		<u>4,400,010</u>		<u>5,023,061</u>		<u>5,406,898</u>	
Total All Classes ^{1,2}	<u>\$15,065,710</u>	<u>\$5.87</u>	<u>\$16,700,537</u>	<u>\$5.72</u>	<u>\$18,589,363</u>	<u>\$5.66</u>	<u>\$19,870,351</u>	<u>\$5.87</u>	<u>\$22,226,713</u>	<u>\$5.94</u>

¹ Totals may not agree due to rounding.

² Tax rates represent weighted average of the various individual tax rates and are per \$1,000 of net taxable value.

Source: County of Maui Department of Finance, certified as of the preceding fiscal year.

Table 7
COUNTY OF MAUI
Real Property Tax Assessed Valuation,
Rate, Levy and Collections

Fiscal Year Ended June 30	Real Property Net Valuation For Tax Rate Purposes	Property Tax Rate¹ Per \$1,000	Real Property Tax Levy²	Tax Collections Current and Delinquent	
				Amount	Percent
1999	\$13,593,153,849	\$5.47	\$74,350,221	\$74,811,889	100.62
2000	14,044,492,242	5.87	82,432,567	84,650,864	102.69
2001	15,065,710,085	5.87	88,361,241	88,077,754	99.68
2002	16,700,536,516	5.72	95,608,351	95,808,726	100.21
2003	18,589,362,569	5.66	104,820,080	105,106,328	100.30
2004	19,870,350,952	5.87	116,697,176	117,518,399	100.70

¹ Weighted average of the various tax rates applicable to the various classifications of property involved.

² Real property tax levy before "circuit breaker" credits of \$540,935 (1999), \$542,212 (2000), \$472,616 (2001), \$457,621 (2002), \$400,019 (2003), and \$351,479 (2004).

Source: County of Maui Department of Finance.

Table 8
COUNTY OF MAUI
Principal Real Property Taxpayers
Fiscal Year 2003-2004

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Real Property Taxes</u>	<u>Percent of Total Levy</u>	<u>Assessed Value</u>
KSL Grand Wailea Resort Inc.	Hotel (Grand Wailea)	\$ 2,287,796	1.95%	\$ 281,323,800
Alexander & Baldwin Inc, East Maui Irrigation Co., A & B Properties Inc., A & B Hawaii Inc.	Sugar / Development / Property Management	1,681,426	1.43%	254,966,300
Castle & Cooke Inc., Resorts LLC, Lanai Properties, Dole, Lanai Co., Lanai Developers	Development / Property Management / Hotel / Golf Course	1,454,698	1.24%	220,673,500
HRM/BRE Maui LLC	Hotel (Hyatt)	1,353,603	1.15%	167,814,800
Kea Lani Limited Partnership	Hotel (Fairmont Kea Lani)	1,350,578	1.15%	162,713,100
Seibu: Makena Golf Corp., Makena Aina Corp., Maui Prince Hotel LLC, Ainamua Corp.	Hotel / Golf Course / Development	1,101,542	.94%	161,196,400
Wailea Golf LLC, Wailea Resort Co. Ltd., Wailea Golf Resort Inc.	Golf Course / Development	1,099,596	.94%	179,268,000
SCP (Maui 5) Inc.	Hotel (Four Seasons)	1,070,583	.91%	133,168,800
Kyo-Ya Co Ltd.	Hotel (Sheraton)	987,616	.84%	118,989,900
Maui Land & Pineapple Co.	Development / Property Management / Hotel / Golf Course / Pineapple	949,229	.81%	141,697,100
TOTALS		<u>\$13,336,666</u>	<u>11.36%</u>	<u>\$1,821,811,700</u>

Fiscal year 2004 taxes were calculated from the January 1, 2003 assessment. The taxes levied are for the fiscal year July 1, 2003 through June 30, 2004.

Source: County of Maui Department of Finance.

Allocation of State Transient Accommodations Tax

Pursuant to Section 237D, Hawaii Revised Statutes, the State imposes a transient accommodations tax on gross rental proceeds derived from furnishing transient accommodations. Each county receives a portion of the transient accommodations tax revenues collected by the State under a distribution formula prescribed by this statute. The transient accommodations tax, commonly referred to as a “hotel room tax,” is the County’s second largest source of revenue.

The transient accommodations tax is 7.25% of gross rental proceeds. In addition, the equivalent of the transient accommodations tax is now imposed on the fair market rental value of time share vacation rentals as well as hotel rooms. Revenues collected from the transient accommodations tax are distributed as follows: 17.3% of revenues are deposited to the Convention Center Enterprise Special Fund, 32.6% of revenues are deposited to the Tourism Special Fund, 5.3% of revenues are deposited into the Transient Accommodations Tax Trust Fund, and the remaining 44.8% of revenues are transferred to the counties. The County’s share of such distribution remains at 22.8% of the total revenues distributed to the counties.

The following table presents the County’s receipts from the transient accommodations tax for the fiscal year ending June 30, 2004 and the five previous fiscal years.

Table 9
COUNTY OF MAUI
Transient Accommodations Tax

<u>Fiscal Year</u>	<u>Receipts</u>
1999	\$19,335,141
2000	17,221,517
2001	18,426,759
2002	16,346,946
2003	16,856,060
2004	18,293,780

Source: County of Maui Comprehensive Annual Financial Report.

Other Revenues

During the past five fiscal years, the County’s real property tax and its allocation of the State transient accommodations tax, discussed above, have accounted for nearly 90% of the revenues of the General Fund. The remaining revenues for the General Fund consist of moneys derived from fees and permits, Federal and State grants, charges for current services and other miscellaneous revenues.

Real property owned by public utilities is exempt from real property taxation by the County. However under Act 64, Session Laws of Hawaii, 2001, effective July 1, 2001, counties which exempt public utility properties from real property taxation receive a portion of the “public service company tax” imposed on public utilities by the State. The County’s share of the tax on public service companies was approximately \$4.8 million for each of the two fiscal years ended June 30, 2003 and 2004.

General Fund Performance

Tables 10 and 11 present certain historical financial information regarding operation of the County's General Fund.

Table 10
COUNTY OF MAUI
General Fund Balance Sheet
(Fiscal Year Ending June 30)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
ASSETS					
Cash and cash equivalents	\$ 7,190,609	\$10,193,150	\$ 642,456	\$ 1,455,891	\$ 119,877
Investment	16,115,234	18,830,446	16,725,962	10,458,114	5,750,579
Receivables:					
Real property taxes	2,278,935	2,463,051	4,211,864	3,968,331	4,327,215
State of Hawaii	41,998	48,382	47,000	45,000	44,000
Other	885,300	----	----	----	----
Due from other funds	<u>938,836</u>	<u>1,876,739</u>	<u>2,121,801</u>	<u>5,753,432</u>	<u>22,732,496</u>
Total Assets	<u>\$27,450,912</u>	<u>\$33,411,768</u>	<u>\$23,749,083</u>	<u>\$21,680,768</u>	<u>\$32,974,167</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Vouchers payable	\$ 1,232,504	\$ 1,727,055	\$ 1,092,766	\$ 2,354,680	\$ 1,515,612
Contract retention payable	31,808	32,018	40,951	16,233	19,116
Deposits and deferred revenue	1,263,654	862,819	2,006,735	1,458,130	1,614,706
Advance collections	<u>1,122,754</u>	<u>1,094,631</u>	<u>1,470,952</u>	<u>1,819,740</u>	<u>2,134,533</u>
Total Liabilities	\$ 3,650,720	\$ 3,716,523	\$ 4,611,404	\$ 5,648,783	\$ 5,283,967
Fund Balances:					
Reserved for encumbrances	\$ 7,641,976	\$ 6,629,887	\$10,937,370	\$11,574,731	\$ 9,846,316
Unreserved	<u>16,158,216</u>	<u>23,065,358</u>	<u>8,200,309</u>	<u>4,457,254</u>	<u>17,843,884</u>
Total Fund Balances	23,800,192	\$29,695,245	\$19,137,679	\$16,031,985	\$27,690,200
Total Liabilities and Fund Balances	<u>\$27,450,912</u>	<u>\$33,411,768</u>	<u>\$23,749,083</u>	<u>\$21,680,768</u>	<u>\$32,974,167</u>

Source: County of Maui Comprehensive Annual Financial Report.

Table 11
COUNTY OF MAUI
General Fund Consecutive Statement
of Revenues, Expenditures, and Changes in Fund Balance
(Fiscal Year Ending June 30)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
REVENUES					
Taxes	\$84,650,864	\$88,077,754	\$100,348,248	\$109,948,812	\$121,578,171
Licenses and permits	5,008,269	5,664,878	3,273,758	4,131,295	5,733,549
Intergovernmental revenues	17,320,554	18,555,004	16,447,209	16,960,857	18,493,376
Charges for current services	1,047,962	1,198,750	726,385	846,711	1,170,265
Fines and forfeitures	800,144	822,201	960,228	1,177,163	1,038,109
Money and property	2,937,835	3,323,544	2,121,808	1,417,397	1,224,188
Other	2,543,106	2,981,217	1,042,331	1,005,539	516,267
Total Revenues	<u>\$114,308,734</u>	<u>\$120,623,348</u>	<u>\$124,919,967</u>	<u>\$135,487,774</u>	<u>\$149,753,925</u>
EXPENDITURES					
Current:					
General government	\$ 34,676,163	\$ 34,335,152	\$ 41,092,547	\$ 44,094,118	\$ 46,694,225
Public safety	36,846,619	37,461,586	39,617,520	43,280,757	45,922,609
Highways & Streets	----	----	----	----	919,633
Sanitation	3,923	----	----	----	----
Social welfare	11,875,532	12,565,755	13,589,284	13,526,780	11,127,364
Culture and recreation	15,039,271	14,579,611	16,500,310	17,536,352	17,639,056
Legislative	2,964,007	3,322,661	3,327,687	3,952,527	3,680,844
Total Expenditures	<u>\$101,405,515</u>	<u>\$102,264,765</u>	<u>\$114,127,348</u>	<u>\$122,390,534</u>	<u>\$125,983,732</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 12,903,219	\$ 18,358,583	\$ 10,792,619	\$ 13,097,240	\$23,770,193
OTHER FINANCING SOURCES (USES)					
Transfers In:					
General Fund	\$ 30,000	\$ ----	\$ ----	\$ ----	\$ ----
Special Revenue Funds	12,540,072	12,345,567	11,782,784	13,881,947	14,508,299
Capital Projects Fund	537,446	19,249	101,344	1,308,159	915,987
Proprietary Funds	----	1,000,000	56,155	92,111	96,717
Revolving Funds	----	----	----	----	700,000
Transfers Out:					
General Fund	(30,000)	(299,800)	----	----	----
Special Revenue Funds	(4,092,182)	(2,320,655)	(1,904,700)	(2,742,204)	(3,329,550)
Debt Service Fund	(21,809,719)	(22,627,891)	(22,785,835)	(24,172,948)	(24,893,431)
Capital Projects Fund	(170,000)	(580,000)	(7,596,000)	(4,570,000)	(110,000)
Total Other Financing Sources and Uses	<u>(\$12,994,383)</u>	<u>(\$12,463,530)</u>	<u>(\$20,346,252)</u>	<u>(\$16,202,935)</u>	<u>(\$12,111,978)</u>
Net Change in Fund Balances	(91,164)	5,895,053	(9,553,633)	(3,105,695)	11,658,215
Fund Balances, Beginning of Period	<u>23,891,356</u>	<u>23,800,192</u>	<u>28,691,313*</u>	<u>19,137,680</u>	<u>16,031,985</u>
Fund Balances, End of Period	<u>\$23,800,192</u>	<u>\$29,695,245</u>	<u>\$19,137,680</u>	<u>\$16,031,985</u>	<u>\$27,690,200</u>

* Restated - Beginning July 1, 2001, the Liquor Control Fund was transferred to a Special Revenue Fund. The effect was to decrease the General Fund's beginning fund balance by \$1,003,932 and increase the Special Revenue Funds fund balance by the same amount.

Source: County of Maui Comprehensive Annual Financial Report.

Special Revenue Funds

The Special Revenue Funds are utilized to account for the revenues derived from a specific source (other than special assessments) or which are applied to finance specified activities as required by law or administrative regulation. The Special Revenue Funds are used to pay for the cost of providing certain County services, including highway improvements and operations, sewer, solid waste management, law enforcement programs and certain social services programs.

The primary sources of revenues of the Special Revenue Funds are discussed below.

Motor Vehicle Weight Tax

Hawaii Revised Statutes, Chapter 249, authorizes the counties to impose an annual tax on the net weight of all vehicles used on the public highways. Under Section 3.24.030 of the Maui County Code, the following tax rates are currently applicable in the County:

- | | |
|--|-------------------------------|
| a. Passenger vehicles and noncommercial vehicles not exceeding 6,500 pounds (automobiles, buses, ambulances and hearses) | \$0.0125 per lb. (net weight) |
| b. Motor vehicles and other vehicles designed for other than carrying passengers (trucks, truck-tractors, road tractors, trailers and semi-trailers) | \$0.020 per lb. (net weight) |
| c. Minimum tax | \$6.00 per vehicle |

The proceeds from the vehicle weight tax are restricted to highway and related expenditures by Section 249-18, Hawaii Revised Statutes.

County Fuel Taxes

In addition to the taxes on liquid fuel imposed by the State, each county is authorized by Section 243-5, Hawaii Revised Statutes, to impose a tax on liquid fuels sold or used within its jurisdiction, excluding aviation fuel. The county fuel taxes are imposed on gasoline, alcohol fuels, diesel oil and liquefied petroleum gas for highway use. The amount of tax on each fuel in each county is determined by the respective county's governing body. The County's current rates are \$0.18 per gallon of gasoline and diesel oil and \$0.043 per gallon of liquefied petroleum gas.

The proceeds from the county fuel tax are restricted by Section 243-6, Hawaii Revised Statutes, to highway and related expenditures, including payment of debt service of general obligation bonds issued to finance highway construction.

Public Utility Franchise Tax

Electric power and gas companies (but not telephone companies) operating as public utilities are required by Section 240-1, Hawaii Revised Statutes, to pay each county in which their businesses are conducted a tax equal to 2.5% of the companies' gross receipts for sales in such county, unless such county in its charters with such utilities has agreed to a lower rate of tax. The County has not agreed to a lower rate of tax for any such utility. This tax on electric power and gas companies is in addition to the tax on public service companies described under "GENERAL FUND -- Other Revenues" above.

Presented below in Tables 12 and 13 is historical financial information regarding the operations of the County's Special Revenue Funds.

Table 12
COUNTY OF MAUI
Special Revenue Fund Balance Sheet
(Fiscal Year Ended June 30, 2004)

	<u>Highway Fund</u>	<u>Wastewater Fund</u>	<u>Grant Fund</u>	<u>Other Governmental Funds*</u>
ASSETS				
Cash and cash equivalents	\$ 119,186	\$ 22,479	\$ ----	\$ 247,041
Investments	5,717,515	1,078,361	----	11,850,848
Receivables:				
Trade accounts	----	1,609,950	----	1,262,391
Federal Government	----	----	3,630,309	----
State of Hawaii	1,144,128	----	4,111,536	----
Other	----	----	171,489	----
Total Assets	<u>\$6,980,829</u>	<u>\$2,710,790</u>	<u>\$7,913,334</u>	<u>\$13,360,280</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Vouchers payable	\$ 134,014	\$ 309,718	\$ 266,289	\$ 235,637
Contract retention payable	----	7,491	33,066	----
Due to other funds	----	----	1,431,881	----
Deposits and deferred revenue	----	----	6,182,098	405,328
Advance collections	----	----	----	1,758,541
Total Liabilities	<u>\$ 134,014</u>	<u>\$ 317,209</u>	<u>\$7,913,334</u>	<u>\$ 2,399,506</u>
Fund Balances:				
Reserved for encumbrances	\$1,827,914	\$ 818,755	----	\$ 1,326,053
Unreserved and reported in				
Special Revenue Fund	<u>5,018,901</u>	<u>1,574,826</u>	----	<u>9,634,721</u>
Total Fund Balances	<u>\$6,846,815</u>	<u>\$2,393,581</u>	<u>----</u>	<u>\$10,960,774</u>
Total Liabilities and Fund Balances	<u>\$6,980,829</u>	<u>\$2,710,790</u>	<u>\$7,913,334</u>	<u>\$13,360,280</u>

* Includes the following Special Revenue Funds: Liquor Control Fund, County Funds, Bicycle Fund and Solid Waste Fund. Also includes the Sewer Assessments Fund, Parks Assessments Fund and Other Assessments Funds, which are not considered Special Revenue Funds.

Source: County of Maui Comprehensive Annual Financial Report.

Table 13
COUNTY OF MAUI
Statement of Special Revenues, Expenditures, and Changes in Fund Balance
Government Funds
(Fiscal Year Ended June 30, 2004)

	<u>Highway Fund</u>	<u>Wastewater Fund</u>	<u>Grant Fund</u>	<u>Other Governmental Funds*</u>
REVENUES				
Taxes	\$18,282,844	\$ ----	\$ ----	\$ ----
Licenses and permits	7,328,094	9,895	----	1,928,649
Intergovernmental revenues	----	----	26,570,395	1,456
Charges for current services	----	23,934,347	961	9,704,678
Fines and forfeitures	----	37,300	----	20,115
Money and property	----	----	3,243	1,658
Assessments	----	----	----	1,794,776
Other	<u>7,855</u>	<u>19,072</u>	<u>477,177</u>	<u>1,726,484</u>
Total Revenues	\$25,618,793	\$24,000,614	\$27,051,776	\$15,177,816
EXPENDITURES				
Current:				
General government	\$ ----	\$ ----	\$ 5,953,391	\$ 289,809
Public safety	----	----	2,888,401	61,994
Highways and streets	13,539,918	----	----	436,293
Sanitation	----	13,945,440	401,664	8,487,030
Social welfare	----	----	17,661,971	1,853,657
Culture and recreation	<u>----</u>	<u>----</u>	<u>275,349</u>	<u>810,523</u>
Total Expenditures	\$13,539,918	\$13,945,440	\$27,180,776	\$11,939,306
Excess (Deficiency) of Revenues Over Expenditures	<u>\$12,078,875</u>	<u>\$10,055,174</u>	<u>(\$ 129,000)</u>	<u>\$ 3,238,510</u>

* Includes the following Special Revenue Funds: Liquor Control Fund, County Funds, Bicycle Fund and Solid Waste Fund. Also includes the Sewer Assessments Fund, Parks Assessments Fund and Other Assessments Funds, which are not considered Special Revenue Funds.

Source: County of Maui Comprehensive Annual Financial Report.

Deposits and Investments

The County maintains a cash and investment pool that is used by all funds except the deferred compensation plan agency fund which is held separately by the independent plan administrator.

Total bank balances of deposits amounted to approximately \$12 million at June 30, 2004 (including approximately \$360,000 reported in restricted assets related to the Department of Water Supply). Approximately \$400,000 was covered by federal depository insurance, with the remaining balance covered by collateral held by the County, or the County's agent in the County's name. Interest income was \$1.1 million for the General Fund.

State statutes authorize the County to invest in obligations of the U.S. Treasury and U.S. government agencies, obligations of the State and the County, and bank repurchase agreements.

The County's investment balances as of June 30, 2004 consisted of U.S. Treasury and U.S. Agency obligations, Student Loan Revenue Bonds, and bank repurchase agreements having an approximate fair value as follows:

Table 14
COUNTY OF MAUI
Investment Balances
(Fiscal Year Ending June 30, 2004)

	<u>Carrying Amount</u>
U.S. Treasury Securities	\$ 7,045,000
U.S. Agency Securities	67,666,000
Student Loan Revenue Bonds	20,050,000
Bank Repurchase Agreements	<u>7,000,000</u>
	<u>\$101,761,000</u>

Source: County of Maui Comprehensive Annual Financial Report.

Capital Improvements Program

The County updates its six-year capital improvements program annually, developing the projects from plans and studies that guide the overall growth of the County. The capital improvements program is expected to be partially financed with bond proceeds, with the balance expected to be funded by a mix of Federal and State funding sources and County taxes. Tables 15 and 16 show major improvement projects and district expenditures as estimated for the fiscal year ending June 30, 2005 and the ensuing five fiscal years.

Table 15
COUNTY OF MAUI
Six-Year Capital Improvements Program Summary
(Estimated requirements in thousands of dollars)

<u>Project Type</u>	<u>Fiscal Year 2005</u>	<u>Fiscal Years 2006-2010</u>	<u>Total Cost</u>
Road Improvement/Drainage	\$23,425	\$117,155	\$140,580
Government Facilities	2,810	91,906	94,716
Park Improvements	3,505	11,575	15,080
Wastewater Treatment Facilities	14,865	78,895	93,760
Sanitation	5,250	14,650	19,900
Water	20,060	53,692	73,752
Other Projects	<u>5,176</u>	<u>3,992</u>	<u>9,168</u>
Totals	<u>\$75,091</u>	<u>\$371,865</u>	<u>\$466,956</u>

Source: County of Maui Capital Budget Fiscal Year 2004.

Table 16
COUNTY OF MAUI
Six-Year Capital Improvements by District
(Estimated requirements in thousands of dollars)

<u>Community Plan District</u>	<u>Fiscal Year</u> <u>2005</u>	<u>Fiscal Years</u> <u>2006-2010</u>	<u>Total Cost</u>
Hana	\$ 2,215	\$ 28,260	\$ 30,475
Paia-Haiku	1,400	14,575	15,975
Makawao-Pukalani-Kula	11,825	20,102	31,927
Wailuku-Kahului	28,835	132,554	161,389
Kihei-Makena	2,310	37,295	39,605
Lahaina	16,000	34,847	50,847
Lanai	200	7,510	7,710
Molokai	2,400	32,440	34,840
Countywide	<u>9,906</u>	<u>64,282</u>	<u>74,188</u>
Totals	<u>\$75,091</u>	<u>\$371,865</u>	<u>\$446,956</u>

Source: County of Maui Capital Budget Fiscal Year 2004.

THE COUNTY OF MAUI

General Information

The County consists of the inhabited Islands of Maui, Molokai and Lanai and the uninhabited Island of Kahoolawe. The County is the second largest of the four Counties in the State in area. Its land area (including the uninhabited Island of Kahoolawe) is 1,162 square miles (approximately the size of Rhode Island), or 18% of the land area of the State. Based on the 2000 U.S. Census, the County has a resident population of 128,241, which represents approximately 10.6% of the State's total population. Over the ten-year period from 1990 to 2000, the County's resident population grew by 27.6%, the highest growth rate in the State over this period.

Government

Government in the State is highly centralized, with the State assuming responsibility for many functions which in many other parts of the United States are performed by local governments. Chief among these are health, education and welfare. For example, the public schools and medical facilities in the County are administered and funded by the State. The County does provide a broad range of municipal services. These services include public safety (police, fire and public prosecutor), construction and maintenance of highways and streets, sanitation, social services, culture and recreation, public improvements, planning and zoning, water supply and general administrative service. Because there are no separate city or township governments or school districts in the County, there are no general overlapping taxes at the County level.

The County is governed by the provisions of the County Charter. The County Charter was originally adopted by the electorate in September 1967 and revised in 1976. On January 1,

1983, a new charter became effective after being adopted by the electorate on November 2, 1982. The County Charter was amended in 1984, 1986, 1988, 1990, 1992, 1994, 1996, 1998, and 2002.

Elected Officials

Mayor. Under the provisions of the Charter the executive power of the County is vested in and exercised by the executive branch, which is headed by the Mayor. The Mayor directly supervises all departments and administrative activities except police, liquor control, personnel services and fire and public safety. The Mayor serves a four-year term and is limited to two consecutive full terms.

The current Mayor is Alan M. Arakawa, who was elected November 5, 2002. Mayor Arakawa was elected as a Maui County Councilman for two year terms beginning in 1994, 1996 and 2000. In the County Council, he served as Chairman of the Planning Committee as well as the Chairman of the Land Use Committee. As a Councilman, he was instrumental in changing the Community Plan structure, creating non-partisan county elections, and increasing community public television access. Mayor Arakawa counts among his many professional boards and memberships, the Maui Board of Realtors, Chamber of Commerce, Maui Economic Opportunity, Maui Visitors Bureau, Agricultural Stabilization & Conservation Services, the Maui Vegetable Growers Association and the Maui Farm Bureau.

County Council. The County Council is the legislative body of the County. The Council consists of nine members, all of whom are elected at large and serve concurrent two-year terms. Council members are not permitted to serve more than five consecutive full terms of office. In order to be eligible for election or appointment to the Council, a person must be a U.S. citizen and a voter registered in the County. A nominee must also be a resident of the County for ninety (90) days preceding the filing of nomination papers; and, at the time of filing of nomination papers, a resident in the area from which the person seeks to be elected. The nine-member council is required to be comprised of one resident from each of nine different regions of the County. These regions are: Makawao-Haiku-Paia; East Maui; South Maui; West Maui; Molokai; Lanai; Kahului; Wailuku-Waihee-Waikapu; and “Upcountry” (Pukalani-Kula-Ulupalakua).

The Council is the policy-making body of the County. Its major functions include approval of the County budget; establishment of all fees, rates, assessments and taxes; appropriation of funds; establishment of development controls including adoption of general plan, community plans and zoning; and other related functions.

Other County Officials

Keith A. Regan, Managing Director, was appointed to that post in July 2004 by Mayor Alan Arakawa, following his post of Director of Finance from January 2003. Prior to joining the County of Maui, he was the President and sole owner of Hawaii Cartage, Inc. since its inception in 1996. His responsibilities included managing the finances of the corporation, developing strategic marketing plans, performing various human resource functions and other business related activities. During his tenure as President he received the Pacific Business News Young

Business Person of the Year Award for 2001, the Pacific Business News Forty Under Forty Award in 2001 and the Bank of Hawaii Community Leader of the Year Award for 2001. Mr. Regan received his undergraduate degree in Business from DeVry Institute of Technology in 1995. He went on to receive his Masters of Business Administration from the University of Phoenix in 2002.

Kalbert K. Young, Director of Finance, was appointed Director of Finance in August 2004 by Mayor Alan M. Arakawa. Young took his bachelor's degree in American history and master's in business administration degrees from the University of Hawaii at Manoa. Young worked with Honolulu City Council developing a commuter bus service plan and served in the State House of Representatives (1996-98 sessions) on the staff of the Chair of the House Committee on Economic Development. In 1993, he joined the \$5 billion trust, Kamehameha Schools Bernice Pauahi Bishop Estate (KS). There he held positions in the Government Relations Department, the Office of Budget and Review, as financial and budget analyst in the Office of Budget and Financial Planning; and, as Audit Senior in the Schools' Internal Audit Division. Moving to Maui, he served as the County's first Small Business Advocate, leading development of the Maui County Business Resource Center & County Store and re-establishing the Sister-City Program. Young later served the Kapalua Land Company in the Land Planning & Development Division where his responsibilities included financial modeling and project coordination for resort and residential development.

Wayne Y. Fujita, CPA, Deputy Director of Finance, was appointed as the Deputy Director of Finance in January 2003. Previously, he was the County Treasurer since July 1998. Mr. Fujita also served the County as Deputy Director of Finance from 1992 until June 1998. Prior to joining the County, Mr. Fujita was the Treasurer of a large real estate/construction company headquartered in Honolulu with work in Hawaii, Guam, the Philippines and other Pacific regions. Mr. Fujita was also employed by Coopers & Lybrand as a certified public accountant, in auditing local and state governments, banks, hospitals, retailing and wholesaling businesses and nonprofit service organizations. Mr. Fujita received his Bachelor's degree in Business Administration from the University of Hawaii at Manoa and is a certified public accountant.

Suzanne B. Doodan, CPA, Treasurer, was appointed Treasurer of the County on May 1, 2003. Ms. Doodan joined the County in 1993 as Auditor, and previously served as Acting County Treasurer in 1995-1996, and again in 1997-1998. Prior to joining the County, Ms. Doodan was a practicing certified public accountant in the greater Los Angeles area for over ten years. Ms. Doodan received her Bachelor's degree in Business Administration from Pennsylvania State University, and is licensed as a CPA in Hawaii.

Danilo Agsalog, Budget Director, was appointed as the Budget Director of the County in January 2003. He holds a Master's in Business Administration from Hawaii Pacific University. Prior to his appointment as the Budget Director, Mr. Agsalog served as an Executive Assistant to Councilman Alan M. Arakawa. He also served as the Fund Manager for the MEO Business Development Corporation. Mr. Agsalog is the founder and Chairman of the Board of "I-VIEW, Inc." (Independent View, Inc.), a market research company based in the Philippines. In 2004, the Government Finance Officers Association of the United States and Canada (GFOA)

awarded the County of Maui its prestigious Distinguished Budget Presentation Award – the 10th consecutive year that the Office of the Mayor’s Budget Office has received this award – the most of any county in the State of Hawaii. Under the direction of Mr. Aagsalog, the Mayor’s Proposed FY2005 Budget was given the honor based on the “commitment of the governing body and staff to meeting the highest principles of governmental budgeting,” and satisfied “nationally recognized guidelines for effective budget presentation,” according to the GFOA press release.

Budget Process

The County Charter requires the Mayor on or before March 15 of each year to submit to the County Council an operating budget for the ensuing fiscal year, a capital program and an accompanying message. The operating budget and the capital program are prepared by the Mayor with the assistance of the Department of Finance. The operating budget presents a complete financial plan for the current operations of the County and its departments. The capital program contains capital improvements pending or proposed to be undertaken within the ensuing fiscal year and ensuing five fiscal years, together with the estimated cost of each improvement and pending or proposed method of financing. Chapter 46, Hawaii Revised Statutes was amended in 1993 to permit counties to prepare budgets on a one or two year period. The County Charter has not been amended to change the County’s budgetary procedures.

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budget ordinance approved by the County Council. Activities of the general fund, special revenue funds (except for special revenue - County funds), debt service fund, and capital projects fund are included in the annual budget ordinance.

Public hearings are held by the County Council between April 1 and April 30 in the year of submission. After public hearing, the operating budget and capital program are subject to review and amendment by the County Council. If, however, the County Council fails to adopt an operating budget on or before May 31 of a given year, the County Charter provides that the operating budget submitted by the Mayor will be deemed enacted as the operating budget for the ensuing fiscal year. The County Charter further states that the estimated revenues, proposed expenditures and total appropriations for the ensuing fiscal year shall be equal in amount.

Every appropriation, except an appropriation for a capital improvement, lapses at the close of the fiscal year to the extent the same has not been expended or encumbered by a written contract. An appropriation for a capital improvement remains in force until the purpose for which it was made has been accomplished or abandoned. Under the current County Charter, an appropriation for a capital improvement will be deemed abandoned six months after the close of the fiscal year to the extent that it has not been expended or encumbered by a written contract.

The County Charter provides that no payment may be authorized or made and no obligation incurred against the County except in accordance with appropriations duly made.

Employee Relations

The State Constitution grants public employees the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawaii Revised Statutes, provides for 13 recognized bargaining units for all public employees throughout the State, including County employees. Seven of these bargaining units represent County employees, each of which designates an employee organization as the exclusive representative of all employees of such unit in negotiations with the public employer. In the case of six of these bargaining units, which represent both State and County employees (including employees of the County), the State and the Counties are required to bargain jointly with the bargaining units. Decisions by the employer representatives are determined by a majority of the votes cast. Under statutes, the governor holds a number of votes sufficient to ensure that the governor cannot be outvoted. Thus, by way of example, where the employer representatives consist of the governor and the mayors of the state's four counties, the governor holds four votes, and each of the four mayors holds one vote.

In the event of an impasse, the only union permitted by law to conduct an employee strike against the County is bargaining unit 1, which represents the County's non-supervisory employees in blue collar positions. In the case of all other bargaining units (as identified on Table 17 below), an impasse is required to be resolved through mediation, fact finding, and compulsory "final and binding arbitration." Although HRS Chapter 89 characterizes arbitration as "final and binding," it also provides that all cost items are subject to approval by the respective legislative bodies of the state and each county.

As of June 30, 2004, 1,783 County employees were represented by seven public employee bargaining units, as set forth in Table 17 below. In addition, there are approximately 300 County employees who are not represented by public employee bargaining units. These include elected and appointed officials and contractual hires as well as other excluded personnel.

Table 17
COUNTY OF MAUI
Bargaining Units
June 30, 2004

<u>Bargaining Unit</u>	<u>Number of Employees Covered</u>
Unit 1-blue collar (nonsupervisory)	497
Unit 2-blue collar (supervisory)	43
Unit 3-white collar (nonsupervisory)	489
Unit 4-white collar (supervisory)	25
Unit 11-firefighters	264
Unit 12-police	296
Unit 13-professional and scientific	<u>169</u>
Total	<u>1,783</u>

At the present time, the Unit 12-police officers are continuing in the second year of their four-year contract, which calls for across-the-board increases of 4% in each of the four years,

increases in its Standard of Conduct Differential, and a step movement plan based on cumulative years of service. While Unit 11-firefighters are continuing in the second year of their two-year contract, they are currently at an impasse in negotiations over the FY 2005-2007 contract with arbitration scheduled for February 2005. The interest arbitration award for the Hawaii Government Employees Association (HGEA), which represents bargaining units 2, 3, 4, and 13 was received in the latter part of March 2004. The award calls for the continuation of the step movement plan effective July 1, 2003 for all units, however, step movements were deferred until effective July 1, 2004 with no retroactive pay adjustments. Unit 2 also established a two-step longevity plan which became effective June 30, 2004. In addition, all HGEA units are scheduled to receive a 5% across-the-board increase effective January 1, 2005. On September 28, 2004, the Hawaii Labor Relations Board declared an impasse in negotiations concerning collective bargaining agreements with HGEA for FY2006 and FY2007. An arbitration hearing on such agreements has been scheduled for February 2005. Wage and cost items were reopened for discussion with the United Public Workers, which represents bargaining unit 1, and tentative agreements were reached and ratified for the current contract period. However, in accordance with HRS Chapter 89, approval by all legislative bodies is needed as the final action. As such, even if all of the counties act, final approval will still await convening of the state legislature in January 2005.

Pensions

All regular employees of the County are covered under the Employees' Retirement System of the State ("State Retirement System"). Retirement, disability and death benefits provided by the State Retirement System are financed by employer contributions and by employee contributions determined on an actuarial reserve basis. Most contributory employee members contribute 7.8% of their compensation to the pension accumulation fund plan, except for firefighters and police who contribute 12.2% of compensation.

The State Retirement System began operation on January 1, 1926, having been established by the state legislature in the preceding year. Since that date, the State Retirement System has experienced a rapid growth in membership and assets. The total assets of the State Retirement System on a market value basis amounted to approximately \$8.6 billion as of June 30, 2004. On June 30, 2004, the State Retirement System's membership was composed of approximately 62,573 active employees, 4,501 inactive vested members, and 32,297 pensioners and beneficiaries.

Chapter 88, Hawaii Revised Statutes, governs the operation of the State Retirement System. Responsibility for the general administration and proper operation of the State Retirement System is vested in an eight member Board of Trustees, with certain areas of administrative control being vested in the State Department of Budget and Finance.

In 1984, Chapter 88, Hawaii Revised Statutes, was amended to create a noncontributory retirement plan for certain members of the State Retirement System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, elected officials, the managing director, department heads and first deputies appointed by the

mayor, the corporation counsel and first deputy corporation counsel, the prosecuting attorney and first deputy prosecuting attorney, the county clerk and deputy clerk, the water safety officers, staff investigators, and persons employed in positions not covered by Social Security are excluded from the noncontributory plan. Retirement, disability, and death benefits under the non-contributory plan are less than the contributory plan. There has been no major change in the County's funding requirements because the cost of the non-contributory retirement plan is approximately the same as the cost of the contributory retirement plan. The number and percentage of noncontributory plan members will increase in the future because most new employees are required to be members of the noncontributory plan.

The State Retirement System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by an independent consulting actuary to determine the employer contribution requirement based on actuarial valuation methods and assumptions prescribed by Section 88-122, Hawaii Revised Statutes. Pursuant to Section 88-122, the total actuarially determined employer contribution to the pension accumulation fund shall be the annual payment required to liquidate the unfunded accrued liability over a period of 29 years beginning July 1, 2000. Effective July 1, 2005, employer contributions will be changed from a flat dollar amount to a percentage of payroll methodology (15.75% for police officers and 13.75% for other employees).

Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the State Retirement System. The contribution requirement is determined in the aggregate for all employers in the State Retirement System and then allocated to individual employers based on the payroll distribution for covered employees as of the March preceding the valuation date.

As of June 30, 2004, the total unfunded actuarial accrued liability for the State Retirement System was estimated to be approximately \$3.474 billion. The actuary for the State Retirement System does not provide a breakdown of the unfunded liability for the counties. Historically, the County's contribution has been approximately 3% of the total unfunded liability for the State Retirement System.

Pursuant to Section 88-107, Hawaii Revised Statutes, excess investment earnings (i.e., earnings in excess of the investment yield rate reflected in the actuarial valuations) are currently retained in part by the State Retirement System to reduce the unfunded actuarial liability and applied in part as a credit against the employer contribution derived from the valuation for the fiscal year in which the investment earnings are realized. For the June 30, 1997 and 1998 valuations, all investment earnings in excess of ten percent were credited against the employer contributions which came due in the fiscal years ending June 30, 2000 and 2001, respectively. Beginning with the June 30, 1999 valuation, the State Retirement System has retained all excess earnings for the purpose of reducing the unfunded actuarial accrued liability.

The following table presents the County's share of State Retirement System costs for the last five fiscal years and the anticipated pension costs for fiscal years ending June 30, 2004 through 2006:

Table 18
COUNTY OF MAUI
Annual Pension Costs
(Fiscal Year Ending June 30)

<u>Year</u>	<u>State Retirement System Cost</u>
1999	\$ 5,987,000
2000	1,797,100
2001	146,000*
2002	6,758,500
2003	4,266,000
2004	7,134,239
2005	10,152,235
2006	14,592,388**

* As a result of a settlement between the State Retirement System and the Counties, the annual contribution payable by the County of Maui for the fiscal year ended June 30, 2001 was reduced.

** This figure reflects current funding methods. Effective July 1, 2005, the current funding methods will change as described above in this section.

Sources: County of Maui; amounts for fiscal years ending 2004-2006 are estimates based on information received from the Employee Retirement System, State of Hawaii.

In addition to contributions to the State Retirement System, the County makes payments under three pension systems established prior to the establishment of the State Retirement System in 1926. The payments made by the County to these three systems have been declining annually; for the fiscal year ended June 30, 2004, the County's payments totaled less than \$26,000.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Demographic Information

The Island of Maui is the second largest island in the Hawaiian archipelago, having a land area of 729 square miles. The Island of Maui is the seat of County government and is the largest of the four islands making up the County. The Island is also the center of trade, commerce and industrial activity within the County. Traditionally, pineapple and sugar have been the major industries of the County. Today, however, tourism, construction and scientific research facilities are the major components of the County's economy. Major resort facilities are located on the Island of Maui, primarily along the south (Kihei-Wailea) and west (Lahaina-Kaanapali-Kapalua) shores.

The 261 square mile Island of Moloka'i is the second largest of the inhabited Islands of the County. In 2000 it had a population of 7,257. Moloka'i is known as the "Friendly Isle" and has a reputation as a reservoir of the aloha of "Old Hawaii" which has contributed to making the Island a tourist attraction. Moloka'i is the least developed of the major Hawaiian Islands.

The Island of Lana‘i, which in 2000 had a population of 3,193, was formerly known as the “Pineapple Isle” because historically most of its 140 square miles was devoted to production of that fruit. Dole Food Company, Inc. (formerly Castle & Cooke Inc.), the Island’s major land owner, has phased out nearly all of that cultivation. Two world-class resorts, the Lodge at Koele and Manele Bay Hotel, now provide the economic base for the Island.

There is only one governmental unit in the County, that being the County itself. For statistical purposes, however, various areas of the County are considered as communities or districts. Wailuku (2000 population, 17,623), the county seat of the County, and Kahului (2000 population, 20,134), the principal seaport of the Island of Maui, are “twin cities” being virtually adjacent and connected by a short arterial highway. Approximately 29.5% of the population of the County lives in the Wailuku-Kahului area. The other principal population centers on the Island of Maui are Lahaina with a 2000 population of 17,967, and Kihei with a 2000 population of 19,843.

The County’s population is composed of varied ethnic backgrounds including Japanese, Caucasian, Filipino and Hawaiian, among others.

As the following chart indicates, the resident population of Maui County increased from 100,504 in 1990 to 128,241 in 2000. The increase of approximately 27.6% during this period was the highest percentage increase in the State.

Table 19
COUNTY OF MAUI
Comparative Population Statistics

	<u>1990</u>	<u>2000</u>	<u>Increase</u>	<u>% Increase</u>	<u>July 2003 (Est.)</u>	<u>Increase since 2000</u>	<u>%Increase since 2000</u>
County of Maui*	100,504	128,241	27,737	27.60%	135,734	7,493	5.84%
City & County of Honolulu	836,231	876,156	39,925	4.77	902,704	26,548	3.03
County of Hawaii	120,317	148,677	28,360	23.57	158,423	9,746	6.56
County of Kauai	51,177	58,463	7,286	14.24	60,747	2,284	3.91
State of Hawaii	1,108,229	1,211,537	103,308	9.32	1,257,608	46,071	3.80

* Includes Kalawao County (Kalaupapa Settlement).

Source: Maui County Data Book 2003, Table 1.3.1.

General Economic Information

In its Economic Forecast, Maui Edition 2004-2005, First Hawaiian Bank noted that: “Again in 2004, Maui’s economy has continued to flourish, with a job market stronger than the state as a whole. . .Maui displays pervasive strength not just in construction and tourism, but also other service sectors – professional, business and health services.”

Additionally, other sectors of Maui’s economy, such as agriculture, the entertainment industry, sporting events and high technology sectors, contribute to a more diversified economic base. Maui has also been the filming location for various movies, television programs and commercials.

In most Maui County neighborhoods, residential values have significantly increased over the past year, with the value of single-family homes increasing 101% in Napili, 87% in Lanai, 71% in Lahaina and 54% in Kihei. The median price for a single-family home in Maui County increased 31% through September of 2004 to \$550,000, up from \$420,000 last year and \$375,000 in 2002, and higher than in any other county in the State. The median sales price of condominiums also increased 27% during this same period.

Visitor Industry

Maui County's visitor industry is strong, leading the state in 2004. Through October 2004, total arrivals in Maui County by air remained at high levels and Maui County's average room rates remained the highest in the State.

Maui's continued emphasis on the upscale market has been successful in establishing a brand and image that attract higher spending visitors. Daily visitor spending in 2004, year to date, is \$176.70 per person on Maui, and \$244.90 per person on Lana'i.

For the 11th consecutive year, Conde Nast Traveler magazine ranked Maui as the best island destination in the world.

In addition to air arrivals, tourism on Maui has been augmented by two other factors – time shares and the cruise ship industry. Time-share visitors provide stability because the use of their time-share units is paid for in advance and occupancy is therefore less susceptible to fluctuations caused by national or international conditions, as compared to other types of tourist accommodations. With respect to the cruise ship industry, 159 ports of call are expected at Lahaina and Kahului harbors in 2004. Businesses on Maui have experienced a positive economic impact as a result of both cruise ship passengers and crew members taking advantage of activities and attractions during their stays ashore.

The following table presents selected information regarding Maui's visitor industry:

Table 20
COUNTY OF MAUI
Tourism Information
(Years Ended December 31)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total Visitors (in 000s)	2,347	2,305	2,104	2,374	2,436
Domestic Visitors	1,867	1,835	1,686	2,005	2,103
International Visitors	480	470	419	369	324
Occupancy Rate	76.4%	80.9%	74.0%	70.5%	74.2%
Average Daily Room Rate	\$162	\$171	\$184	\$181	\$187

Sources: Hawaii Visitors and Convention Bureau; Maui Visitors Bureau; State of Hawaii Department of Business, Economic Development & Tourism.

Construction

Construction remains one of the strongest sectors of the economy, as it has been for several years thanks to low interest rates and strong local as well as offshore demand. Residential projects expected to be active in coming years include Maui Lani Phase 7, Wailuku Country Estates, Waiehu Kou Phase III, Kehalani, and Villas at Kahana Ridge.

On the non-residential front, Alexander & Baldwin has 267 undeveloped and entitled acres in Wailea. Some have been targeted for bulk parcel sales, some for the company's own development, and some will be held for years to come. Alexander & Baldwin's Maui Business Park in Kahului has planned expansion onto 179 acres for light industrial use, much needed on Maui.

Agriculture

Agriculture represents a significant sector of Maui's economy with approximately 48% of Maui County land devoted to agriculture of some kind. In 2003, agricultural products from Maui County accounted for over \$130 million in sales. Hawaiian Commercial & Sugar Company ("HC&S") and Maui Pineapple Company ("Maui Pine") continue their roles as Maui's agricultural mainstays, as well as the largest and most prosperous sugar and pineapple plantations in the State. Maui Pine is the nation's only domestic pineapple grower and canner. Also, HC&S is one of the largest employers on Maui with over 800 employees.

In recognition of the importance of agriculture to the local economy, the County's Agricultural Specialist continues to work with the agricultural sector in developing a long-range plan for the revitalization of the County's agricultural sector. The Agricultural Specialist works with the County's Cattlemen's Association to rejuvenate the cattle industry, and is working to expand the Kula Agricultural Processing Plant and to assist the Molokai community in getting the Molokai Slaughterhouse to become operational.

HC&S operates the largest sugar plantation in the State and accounts for over 80% of the State's sugar production, with approximately 37,000 acres of sugarcane in Central Maui producing approximately 200,000 tons of raw sugar annually. The company also completed several major capital improvement projects, including factory modernization, allowing it to expand and diversify its product lines to include expansion into higher-end specialty sugars. HC&S is currently investigating the production of ethanol from its molasses, as well as several diversified crop and value-added products.

Maui Pine, a subsidiary of Maui Land & Pineapple Company, Inc., supplies canned pineapple, pineapple juice and fresh pineapple to supermarkets throughout the United States. Maui Pine has also developed vital partnerships with the University of Hawaii and EARTH University of Costa Rica to support research, education and community outreach and to foster entrepreneurship in concert with environmental and agricultural sustainability.

Other Maui products include cut flowers such as protea and tropicals for export to the mainland, hydroponic lettuce, salad greens, cabbage, Chinese cabbage, herbs, strawberries, sweet

potatoes, watermelon, tomatoes, papaya, corn, ogo (an edible seaweed), and tiger shrimp raised on Molokai. Organic farming is also becoming an important niche. There is also a growing tropical fish industry on both Maui and Molokai. The aquaculture industry enjoys continued growth through offshore development, new crop development and a planned aquaculture park. Maui is also home to a number of businesses engaged in agri-biotech work, including development of biodiesel, nemicide development, and development of plant hormones.

Sporting Events

Major national and international sporting events continue to promote Maui and draw visitors to the County. Maui hosts the Hula Bowl Maui, the EA Sports Maui Invitational Basketball Tournament, and international golf and tennis events such as the Mercedes Championships at the Kapalua Plantation Course and Kapalua Open Tennis Tournament. Maui is home to the renowned Maui Marathon and triathlons. Also, Maui's wind and waves have made the north shore the windsurfing capital of the world, drawing the Quicksilver Cup Windsurfing Championships, Da Kine Hawaiian Classic Wavesailing, Aloha Classic and several others events.

High-Technology

In recent years, high technology has emerged as a growing sector of Maui's economy and a growing component of Maui's job base. The centerpiece of Maui's high technology sector is the Maui Research and Technology Park ("MRTP") in Kihei, a private 415-acre campus-style complex which hosts more 30 high-technology companies. Among the companies at the MRTP is the Maui Research and Technology Center, a State of Hawaii project which acts as an "incubator" for start-up companies. Other high-technology projects include the Maui High Performance Computing Center ("MHPCC"), which contains the world's largest and fastest Netfinity Linux Supercluster supercomputer, and the Maui Space Surveillance Complex ("MSSC"), a state-of-the-art electro-optical facility combining operational satellite tracking facilities with research and development capacity.

Other Data

The following tables present other relevant statistical information on the economy of the County.

Table 21
COUNTY OF MAUI
Personal Income

<u>Calendar Year</u>	<u>Total Personal Income (in \$000s)</u>	<u>Per Capita Personal Income</u>
1993	\$2,432,823	\$21,733
1994	2,537,364	22,111
1995	2,612,203	22,157
1996	2,644,551	21,912
1997	2,710,816	22,080
1998	2,841,327	22,795
1999	2,969,162	23,535
2000	3,120,026	24,211
2001	3,372,380	25,542
2002	3,611,210	27,087

Source: 2003 Maui County Data Book.

Table 22
COUNTY OF MAUI
Employment Statistics

<u>Calendar Year</u>	<u>Civilian Labor Force</u>	<u>Civilian Employment</u>	<u>Unemployment</u>	<u>Percentage Unemployment</u>
1994	65,800	61,300	4,500	6.8
1995	65,800	61,000	4,800	7.3
1996	68,050	63,050	4,950	7.3
1997	69,250	64,050	5,200	7.5
1998	69,950	65,200	4,750	6.8
1999	71,400	67,300	4,050	5.7
2000	72,950	69,850	3,550	4.2
2001	76,150	72,600	3,550	4.7
2002	74,450	71,150	3,300	4.4
2003	75,750	72,400	3,350	4.4

Note: Statistics from 2000 to 2003 have been revised.

Source: Maui County Data Book 2003, Table 9.2.1.

INSURANCE AND PENDING LITIGATION

The County is completely self-insured for workers' compensation. The County has public entity liability insurance coverage for general and automobile liability claims in excess of \$500,000 up to \$15 million per occurrence. In addition, the County also has insurance for errors and omissions and employer's practice liability, with a \$500,000 deductible per occurrence up to \$15 million aggregate. The County maintains property insurance coverage of \$75 million, subject to various sub-limits for specified risks and a deductible of \$100,000 per occurrence. For boiler and machinery insurance, the County has \$25 million of insurance coverage.

The estimated total liability of the County of \$9.4 million as of June 30, 2004, with respect to claims and judgments, including claims incurred but not reported by the claimant and settled claims for which funds have not yet been appropriated, is included in the general long-term debt account group. Changes in the claims and judgments liability account in the general long-term debt account group as of June 30, 2004 were as follows:

2004 - Current Year Claims and Changes in Estimates

	<u>Balance</u> <u>July 1, 2003</u>	<u>Change to</u> <u>Estimate</u> <u>Additions/</u> <u>(Reductions)</u>	<u>Claim</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2004</u>
Governmental Activities:				
Workers' compensation	\$3,149,776	\$2,349,902	\$2,468,711	\$3,030,967
Automobile, general liability and other	<u>7,116,059</u>	<u>(232,686)</u>	<u>893,866</u>	<u>5,989,507</u>
Total	<u>\$10,265,835</u>	<u>\$2,117,216</u>	<u>\$3,362,577</u>	<u>\$9,020,474</u>
Business-Type Activities:				
Workers' compensation	\$626,307	\$(107,404)	\$126,757	\$392,146
Automobile, general liability and other	<u>28,482</u>	<u>(5,178)</u>	<u>3,304</u>	<u>20,000</u>
Total	<u>\$654,789</u>	<u>\$(112,582)</u>	<u>\$130,061</u>	<u>\$412,146</u>

The estimated total liability has been determined through case-by-case analysis and from historical experience performed by John Mullen & Company, Inc., the County's third-party administrator. Estimated expenditures for such claims are appropriated annually in the general fund with the exception of workers' compensation, which is appropriated annually from the fund that employed the injured worker.

Claims and lawsuits are filed against the County in the normal course of its operations. Although the precise outcome of these claims and lawsuits is not currently determinable, in the opinion of the County's attorneys, the resolution of such matters will not have a material adverse effect on the financial condition of the County.

The County's Corporation Counsel reports that there is no controversy of any nature now pending or threatened against the County seeking to restrain or enjoin the issuance, sale or execution of the Bonds or any proceedings of the County taken with respect to the issuance or sale of the Bonds.

FINANCIAL STATEMENTS

Portions of the financial statements of the County as of and for the fiscal year ended June 30, 2004, are set forth in Appendix A to this Official Statement. These financial statements have been audited by Russell Yamane & Associates CPAs, Inc. The County has neither requested nor obtained the consent of such firm to include its report on the County's financial statements in this Official Statement, and such firm has performed no procedures subsequent to rendering their report.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

In connection with the issuance of the Bonds and the refunding of the Refunded Bonds, Causey, Demgen & Moore, Inc., independent certified public accountants, will verify the mathematical accuracy of: (a) certain computations demonstrating the sufficiency of the Escrow Funds, including the moneys deposited therein and the anticipated receipts from the Escrow Fund Investments, to pay the principal or redemption price of and interest on all Refunded Bonds, when due; and (b) certain computations of the yield on the Bonds and the Escrow Funds to be relied upon by Bond Counsel for purposes of its opinion to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes. Such verification will be based in part on schedules and information provided by the Underwriter with respect to the foregoing computations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), and the Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto, subject to the matters discussed below.

The amount (if any) by which the issue price of the Bonds of any given maturity is less than the amount to be paid on such date (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the Bonds of any maturity date accrues daily over the term to such maturity date on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the

original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium for bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in gross income for federal tax income purposes. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

In addition, Bond Counsel has relied, among other things, on the opinion of counsel to the Borrower regarding the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed by the Bonds as substantially related to the Borrower's charitable purpose under Section 513(a) of the Code. Such opinion is subject to a number of qualifications and limitations. Furthermore, Counsel to the Borrower cannot give and has not given any opinion or assurance about the future activities of the Borrower, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to the Borrower's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Certain requirements and procedures contained or referred to in the Ordinance authorizing the Bonds, the Certificate, the Tax Certificate of the County relating to the Bonds, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any

Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and that the Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the County or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the County and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the County or the beneficial owners to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel

to the County. Copies of the approving opinions of Bond Counsel will be available at the time of delivery of the Bonds. The form of the opinion Bond Counsel proposes to render is set forth in Appendix B hereto (subject to the matters discussed above under "TAX MATTERS"). Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii, and for the County by its Corporation Counsel.

RATINGS

Moody's Investors Service, Standard & Poor's, a division of the McGraw-Hill Companies, Inc., and Fitch Ratings have assigned ratings of "Aaa," "AAA" and "AAA," respectively, to the Bonds, based upon the issuance by MBIA of its Financial Guaranty Insurance Policy for the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 99 Church Street, New York, New York 10007; Standard & Poor's, 25 Broadway, New York, New York 10004; and Fitch, One State Street Plaza, New York, New York 10004. Generally a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by UBS Financial Services Inc., as Underwriter. The Underwriter has agreed to purchase the Bonds at an aggregate price of \$61,975,464.44 (i.e., the principal amount of the Bonds, plus an original issue premium (net of original issue discount) of \$2,917,210.15 less an underwriter's discount of \$241,745.71). The Bond Purchase Contract between the County and the Underwriter provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the Bonds may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriter) at prices lower than the public offering prices stated on the cover of the Official Statement.

CONTINUING DISCLOSURE

The County will execute a Continuing Disclosure Certificate (the "Disclosure Certificate") for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the County to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of

Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “Rule”). See Appendix C - “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

A failure by the County to comply with the Disclosure Certificate will not constitute an event of default on the Bonds, although any Bondholder or any beneficial owner may bring action to compel the County to comply with its obligations under the Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

VERIFICATION AS TO OFFICIAL STATEMENT

The County will confirm by a certificate signed on its behalf by its Director of Finance and delivered at the closing, to the effect that at the time of the acceptance of the offer to purchase the Bonds, and at the time of the closing for the Bonds: (i) the information and statements, including financial statements, pertaining to the County contained in this Official Statement are correct and complete in all material respects; and (ii) to the best of his knowledge, insofar as the County and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The County, by such certificate, will further confirm that insofar as the descriptions and statements, including financial data, contained in this Official Statement of or pertaining to non-governmental bodies or governmental bodies other than the County are concerned, such descriptions, statements and data have been obtained from sources believed by the County to be reliable, and that the County has no reason to believe that they are untrue or incomplete in any material respect.

MISCELLANEOUS

Additional information may be obtained, upon request, from the Director of Finance of the County.

All quotations from, and summaries and explanations of, the Constitution and laws of the State referred to herein do not purport to be complete, and reference is made to the Constitution and laws of the State for full and complete statements of their provisions. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the Owners of any of the Bonds.

The County has authorized the execution and distribution of this Official Statement.

COUNTY OF MAUI

/s/ Kalbert Young
KALBERT YOUNG
Director of Finance

APPENDIX A

**AUDITED FINANCIAL STATEMENTS
DATED JUNE 30, 2004 (PARTIAL)**

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INDEPENDENT AUDITORS' REPORT

To the Chairman and Members of the County Council of Maui:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Maui, State of Hawaii (County), as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2004, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principals generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 19 through 32 and 81 through 84, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The '*other supplementary information*' listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly presented in all material respects in relation to the basic statements taken as a whole.

The statistical data listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2004, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Russell Yamane & Associates CPAs, Inc.

December 27, 2004
Wailuku, Hawaii

COUNTY OF MAUI

Management's Discussion and Analysis June 30, 2004

This discussion and analysis of the County of Maui's (the County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the County of Maui exceeded its liabilities at the close of the fiscal year by \$573 million (*net assets*).
- The government's total net assets increased by \$12.9 million.
- As of the close of the fiscal year, the County of Maui's governmental funds reported combined ending fund balances of \$63.6 million, a decrease of \$5.6 million in comparison with the prior year. Approximately 37% of this total amount, or \$23.6 million, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$17.8 million, or 14.1% of total general fund expenditures.
- The County's gross amount (before premium and refunding deferral amortization) of General Obligation (G. O.) debt and State Revolving Fund (SRF) Loans outstanding decreased by \$11.8 million (-4.9%) during the current fiscal year. The reason for this decrease in long term debt was because the annual amortization of \$15 million was only offset by the net increase of \$0.9 million from the refunding in fiscal 2004 and the increase in principal of \$2.3 million for the Wailuku/Kahului Wastewater Treatment Plant Modification SRF Loan.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County of Maui's basic financial statements. The County of Maui's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements:

Government-wide Financial Statements. The two government-wide financial statements are designed to provide readers with a broad overview of the County of Maui's finances, in a manner

COUNTY OF MAUI

Management's Discussion and Analysis June 30, 2004

similar to a private-sector business. It presents the financial picture of the County from the economic resources measurement focus using the accrual basis of accounting.

The *Statement of Net Assets* presents information on all of the County of Maui's assets (including infrastructure) and liabilities (including long term debt), with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County of Maui is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the County of Maui that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County of Maui include general government, public safety, highways and streets, sanitation, social welfare, culture and recreation, and legislative. The business-type activities of the County of Maui include the Housing Interim Financing Fund, the Waiehu municipal golf course, and the Department of Water Supply.

The government-wide financial statements include the County of Maui itself (known as the *primary government*). In fiscal 2002, the Department of Water Supply, which was semi-autonomous had its financial information reported separately from the primary government, as a *component unit*. One of the Charter amendments in the November 2002 elections made the Department of Water Supply a department under the control of the Mayor. Therefore, from fiscal 2003 the Department of Water Supply's financial information is presented as a proprietary fund with the *business-type activities*.

These Government-wide Financial Statements can be found in the first section of the Basic Financial Statements.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Maui, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County of Maui can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

COUNTY OF MAUI

Management's Discussion and Analysis June 30, 2004

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called modified accrual.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Most of the County of Maui's basic services are reported in the governmental funds. The County maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Highway, Wastewater, Grant, Debt Service and the Capital Improvement Projects funds, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data from each of these non-major governmental funds is provided in the form of combining statements under Other Supplementary Information section.

The Fund Financial Statements are located immediately after the Government-wide Financial Statements under the Basic Financial Statements section. The first two Fund Statements are the Balance Sheet, and the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds.

Proprietary funds. Services for which the County operates similar to a business-type activity are generally reported in proprietary funds. These proprietary funds provide the same type of financial information (long and short term) as the Government-wide Financial Statements, only in more detail. The County's *Enterprise funds* (one type of proprietary fund) are the same as its *business-type activities* reported in the Government-wide Financial Statements.

The three Proprietary Funds financial statements included are the Statement of Net Assets, Statement of Revenues, Expenditures, and Changes in Net Assets and the Statement of Cash Flows. These proprietary fund financial statements provide separate information for the

COUNTY OF MAUI

Management's Discussion and Analysis June 30, 2004

Housing Interim Financing and Buy-back Revolving Fund, the Golf Course Fund, and the Department of Water Supply, all of which are considered to be major funds of the County of Maui.

The Proprietary Funds financial statements are the second set of Fund Financial Statements after the Governmental Funds financial statements in the Fund Financial Statement section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County of Maui's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic Fiduciary Fund Statement of Net Assets is the last of the Fund Financial Statements and is found after the proprietary fund financial statements under the Fund Financial Statement section of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements is the last section of the Basic Financial Statements, after the Fund Financial Statements section.

Required Supplementary Information (RSI) .The County of Maui adopts an annual appropriated budget for its General, Highway, and Wastewater Funds. Budgetary comparison statements have been provided for all these funds to demonstrate compliance with this budget. These statements are presented as Required Supplementary Information (RSI) which follows the Basic Financial Statements section.

Other Supplementary Information (OSI) This section follows the RSI and displays the individual fund data of the seven other non-major funds in combining statements for the Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balances. These non-major funds are the Liquor Control, County, Bicycle, Solid Waste, Other Assessment, Park Assessment, and Sewer Assessment. The total of these seven non-major funds is included in the column 'Other Governmental Fund' in both the Balance Sheet and the Statement of Revenue Expenditures, and Changes in Fund Balances for the Governmental Funds, the first two Fund Financial Statements of the **Basic Financial Statements**.

COUNTY OF MAUI

Management's Discussion and Analysis June 30, 2004

Included in the OSI section are the detail fund schedules of Revenues - Budget and Actual and Schedule of Appropriations, Expenditures, and Encumbrances for the General, Highway, Wastewater, Grant and Solid Waste funds. Also included in this section are the Schedule of Revenue and Other Financing Sources / (Uses) and Schedule of Appropriations, Expenditures and Encumbrances for the Capital Projects fund.

The last section of the financial section includes three schedules relating to the capital assets for the governmental funds. The first schedule is by type, then by function and department, and the last shows changes by function and department.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year that the County has presented its basic financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and local Governments*.

NET ASSETS (dollars in thousands)						
	Governmental activities		Business-type activities		Total	
	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003
Assets:						
Current and other assets	82,615	85,915	47,760	45,165	130,375	131,080
Capital assets	502,029	509,183	269,269	266,265	775,298	775,448
Total Assets	<u>588,644</u>	<u>595,098</u>	<u>317,029</u>	<u>311,430</u>	<u>905,673</u>	<u>906,528</u>
Liabilities:						
Long-term liabilities outstanding	242,789	257,214	38,766	41,516	281,555	298,730
Other liabilities	43,892	38,717	72,233	8,970	51,125	47,687
Total Liabilities	<u>286,681</u>	<u>295,931</u>	<u>45,999</u>	<u>50,486</u>	<u>332,680</u>	<u>346,417</u>
Net Assets:						
Invested in capital assets, net of related debt	279,902	270,822	229,689	224,132	509,591	494,954
Restricted	35,927	53,134	17,208	12,511	53,135	65,645
Unrestricted (deficit)	<u>(13,846)</u>	<u>(24,789)</u>	<u>24,133</u>	<u>24,301</u>	<u>10,287</u>	<u>(488)</u>
Total Net Assets	<u>301,983</u>	<u>299,167</u>	<u>271,030</u>	<u>260,944</u>	<u>560,111</u>	<u>560,111</u>

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As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Maui, assets exceeded liabilities by \$573 million at the close of the current fiscal year. This compares with the net assets of \$560.1 million from the prior year.

By far the largest portion of the County of Maui's net assets (89%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The County of Maui uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County of Maui's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County of Maui's net assets (9%) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County of Maui is able to report positive balances in all of the three categories of net assets. The total unrestricted net assets reported a balance of \$10.3 million because of the negative balance of \$13.8 million from governmental activities which was offset from the positive balance of \$24.1 million from the business-type activities. The primary reason for the negative balance in the governmental activities is because the other long term liabilities (accrued vacation, claims and judgements, accrued landfill closure cost and capital leases) are unfunded and are accrued in compliance with GASB Statement No. 34.

The government's net assets increased by \$12.9 million during the current fiscal year. The Governmental Activities increased net assets by \$2.8 million and the Business Type Activities increased net assets by \$10.1 million.

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CHANGES IN NET ASSETS (dollars in thousands)

	Governmental activities		Business-type activities		Total	
	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003
Revenues:						
Program Revenues:						
Charges for Services	52,703	42,822	29,056	30,116	81,759	72,938
Operating Grants and Contributions	27,213	26,793	0	0	27,213	26,793
Capital Grants and Contributions	4,525	3,838	13,864	9,828	18,389	13,666
General Revenues:						
Real Property Taxes	116,961	104,574	0	0	116,961	104,574
Other Taxes	41,396	35,242	0	0	41,396	35,242
Investment Earnings	1,385	1,844	675	708	2,060	2,552
Other Revenues	28	536	0	155	28	691
Transfers	97	92	(97)	(92)	0	0
Total Revenues	244,308	215,741	43,498	40,715	287,806	256,456
Expenses:						
Governmental Activities						
General Government	53,952	55,653			53,952	55,653
Public Safety	48,722	46,642			48,722	46,642
Highway and Streets	38,110	20,516			38,110	20,516
Sanitation	31,118	30,669			31,118	30,669
Social Welfare	33,175	32,108			33,175	32,108
Culture and Recreation	22,341	24,015			22,341	24,015
Legislative	3,701	3,952			3,701	3,952
Interest on Long-Term Debt	10,373	10,716			10,373	10,716
Business-Type Activities						
Housing			208	166	208	166
Golf Course			1,609	1,456	1,609	1,456
Water Supply			31,595	31,196	31,595	31,196
Total Expenditures	241,492	224,271	33,412	32,818	274,904	257,089
Change in Net Assets	2,816	(8,530)	10,086	7,897	12,902	(633)
Net Assets - Beginning of Year	299,167	307,697	260,944	253,047	560,111	560,744
Net Assets - End of Year	301,983	299,167	271,030	260,944	573,013	560,111

Governmental activities. Governmental activities increased the County's net assets by \$2.8 million for this year. This compares with last year where net assets decreased by \$8.5 million. The reason for swing of \$11.3 million is that revenues increased by \$28.6 million (13% increase) while expenses increased by only \$17.2 million (8% increase).

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Business-type activities. The three business-type activities increased the County of Maui's net assets by \$10.1 million. The increase in net assets of the Department of Water Supply of \$10.7 million was offset by the decreases in net assets of \$0.6 million for both the Housing Interim Financing and Buy-Back Revolving Fund and the Golf Course Fund. The increase in net assets of \$10.1 million for this year compares with last year's increase of \$7.9 million. Key elements for the increase of \$2.2 million in net assets for this year over last year were as follows:

- The increase of \$2.6 million in net assets from last year for the business-type activities from the Department of Water Supply was offset by the increase of \$0.4 million in the reduction of net assets from the other two business-type activities (Housing & Golf). The Department of Water Supply's increase this year was again attributable to the fund's increase in capital contributions of about \$4.1 million. Increases from water system development fees amounted to \$1.1 million and increase in contributions from the State was \$3.0 million.
- The increase in capital contributions for the Department of Water Supply was offset by an increase in its net operating loss of \$1.7 million and an increase of \$0.2 million in its net non-operating loss.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

As noted earlier, the County of Maui uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the County of Maui's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the County of Maui's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County of Maui's governmental funds reported combined ending fund balances of \$69.2 million, a decrease of \$5.6 million in comparison with the prior year. Approximately 37% (\$23.6 million) of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance (\$40 million) is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period.

General Fund. The general fund is the chief operating fund for the County of Maui. At the end of the current fiscal year, unreserved fund balance of the general fund was \$17.8 million, while the total fund balance reached \$27.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

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Unreserved fund balance represents 14.2% of total general fund expenditures, while total fund balance represents 22% of that same amount.

The net change in the fund balance for the general fund was an increase of \$11.7 million during the current fiscal year. This compares with a decrease of \$3.1 million in the prior year. Key factors for this improvement of \$14.8 million from this year compared to the prior year are as follows:

- The 'Other Financing Sources (Uses)' resulted in a net decrease of \$12.1 million as compared to last year's net decrease of \$16.2 million an improvement of \$4.1 million. The main reason for the improvement in the net 'Other Financing Sources (Uses)' is the decrease of \$4.5 million for cash funded capital improvement projects (shown as Transfers Out - Capital Projects Fund)
- Revenues increased by \$14.3 million (11%) while expenditures increased by only \$3.6 million (3%) which resulted in a net increase of \$10.7 million of Revenues less Expenditures..

Real property tax is the most significant revenue source for the County. This fiscal year's collections of \$116.8 million represents 48% of the all the revenues for the County governmental funds. This year's collection increased by \$11.7 million (11%) over last year's collection of \$105.1 million. The reason for the increase in real property tax collection was because increases in both the tax base and an increase in the tax rate for three classifications of property. The real property tax valuations for tax rate purposes (tax base) went from \$18.59 to \$19.87 billion in fiscal 2004, an increase of 7%.

The Maui County Code allows for eighteen different tax rates; one for land and one for improvements for each of the nine different classifications of property. The County however, has been utilizing one rate for both land and improvements. Within the nine classifications five different tax rates were used. The three tax rates that remained the same were: The Hotel/Resort class rate at \$8.30 per \$1,000 valuation; The Commercial and Industrial rates at \$6.75; and the Agricultural and Conservation rate at \$4.93. The two tax rates that changed were: Improved Residential, Apartment, and Unimproved Residential classes where the rates were increased from \$4.93 to \$5.86 (19% increase); and the Homeowner class rate which was decreased from \$3.63 to \$3.55 (2% decrease).

Included in the Taxes category for the General Fund is the *Public Service Company* tax. This tax which is levied against public utilities provides for a tax of 1.885% of the gross income in lieu of real property tax. Collections for the Public Service Company tax which started in the fiscal 2002 amounted to \$4.8 million, the same amount as the prior two fiscal years.

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The increase of \$11.6 million in the Taxes category and the increase in the other categories of revenue of \$3.4 million were offset by the decreases in the Money and Property and Other categories of revenues. The Money and Property category again decreased (\$0.2 million this year, \$0.7 million last year) because of declining interest rates and the Other category decreased by \$0.5 million. The Intergovernmental Revenues category increased by \$1.5 million because of the increase in receipts from the Transient Accommodation Tax due to the tourism sector of the economy fully rebounding from the effects of the events 09/11, two year ago. The other major increase was in the Licenses and Permits category which increased by \$1.5 million which were due to the increase in the fee for motor vehicle registration (\$1 million) and increase in fees from construction related permits (\$0.5 million).

The increase in the expenditures for the General Fund from this year over the previous year was \$3.6 million an increase of 3%. Salary and wages with expenditures of \$66 million, increased by \$2.6 million (4% increase) from the prior year and accounts for 72% of the total increase of the \$3.6 million increase in the General Fund.

The two functional category of expenditures which accounts for 74% of the General Fund expenditures; General Government (\$46.7 million) and Public Safety (\$45.9 million) accounted for \$5.2 million of the total increase in expenditure for the General Fund. The newly created Department of Transportation (by charter amendment), of which some programs are funded by the General Fund accounted for \$0.9 million for the Highway and Streets functional category in the General Fund. These three major increases were offset by the \$2.4 million decrease in the Social Welfare function which was due mainly to the decreases in the awarding of social services grants. The Legislative function also decreased by \$0.3 million the expenditures for the elections in November 2002 were reflected in last year's expenditures.

Highway Fund. The Highway Fund which is funded by fuel tax (\$12.9 million), franchise tax (\$5.4 million) and the motor vehicle weight tax (\$7.3 million, classified as licenses and permits) collectively made up 11% (\$25.6 million) of the revenues in the governmental funds. Total revenues increased by \$7.1 million or by 38% over last year's revenues (\$18.5 million).

The reason for the increase in revenues was because the rate for the weight tax was increased in the middle of last fiscal year (01/01/03) and this year reflected the full effect of the rate increase. The rate for passenger vehicles increased from 3/4 of one cent to 1 and 1/4 cent (66.7% increase) and the rate for business vehicles increased from 1 and 1/2 cent to 2 cents (33.3% increase) per pound. The collection for this revenue category increased from \$5.0 million to \$7.3 million an increase of \$2.3 million (46% increase). Fuel tax collections increased by \$4.2 million (fuel tax rate increased from 13 cents to 18 cents per gallon in fiscal 2004) and franchise tax collections also increased by \$0.6 million.

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Management's Discussion and Analysis June 30, 2004

Expenditures for the fund increased by \$2.9 million or 27% to \$13.5 million. The major reason for the increase in operational expenditures in the Highway Fund was due to the new created Department of Transportation which was primarily funded in this fund (some programs funded from the General Fund.) The resultant effect of the sizable increases in both revenue collections and expenditures was that fund balance increased by \$5.3 million for the year, as compared to last year's increase of \$1.2 million.

Wastewater Fund. The Wastewater Fund revenues of sewer and cesspool fees of \$26.6 million reflect an increase of \$5.3 million (25%) from last year's revenue collection of \$21.3 million.

Expenditures for the fund decreased by \$0.4 million to \$13.9 million. The fund balance increased by \$0.6 million as compared to last year's decrease of \$3.5 million. This increase in fund balance is attributable to the increase in revenues with a decrease in expenditures and an decrease in cash funded capital improvement projects.

Grant Fund. Total revenue and expenditure for the grant fund was \$27.1 million, which is about the same level as last year. The major program for this fund is the Section 8 Rental Subsidy Program funded by the Department of Housing and Urban Development (HUD). This program with expenditures of \$14.9 million was 55% of the fund total. The number of rental subsidies was increased this year which brought in an additional \$1.6 million as compared to last year.

Capital Improvement Projects Fund. Expenditures for capital improvement projects for fiscal 2004 was \$35.4 million. This compares with last years expenditures of \$38.7 million. Some of the major expenditures include: Lanai Police Station (\$3.2 million), West Maui Resource Center (\$2.1 million), West Maui Senior Center (\$2.7 million), Central Maui Landfill Phase IV (\$1.8 million), Makawao Baseyard (\$1.2 million), and the Wailuku/Kahului Wastewater Treatment Plant renovations (\$3.0 million).

Solid Waste Fund. Although the Solid Waste Fund is not a major fund, its revenues of \$9.7 million from tipping fees and residential collection fees was 64% of all the non-major funds. This year's revenues increased by \$3.4 million from last year which is the reason for the increase in the fund balance of \$1.7 million for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were minor. One of the amendment involved reducing General Fund operating programs appropriations while increasing the subsidy from the General Fund to the Solid Waste Fund, summarized as follows:

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- Three General Fund operating programs appropriations were reduced by \$330,000 which was part of the amount transferred from the General Fund to the Solid Waste Fund. Total subsidy to Solid Waste's operating fund for the Co-composting facility in their landfill program was \$380,000.
- Another budget amendment was a transfer from the salary adjustment account in county-wide costs (general government) to the Department of Fire Control (public safety) for the collective bargaining increases for the firefighters.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS (dollars in thousands)

	Governmental activities		Business-type activities		Total	
	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003
Non-depreciable assets:						
Land	113,955	112,955	8,787	8,787	122,742	121,742
Construction in progress	74,431	71,434	34,667	46,256	109,098	117,690
	<u>188,386</u>	<u>184,389</u>	<u>43,454</u>	<u>55,043</u>	<u>231,840</u>	<u>239,432</u>
Depreciable assets:						
Improvements	68,279	68,800	2,777	2,777	71,056	70,577
Buildings and systems	67,353	67,353	4,990	5,026	72,343	72,379
Equipment	49,476	45,815	20,803	19,953	70,279	65,768
Infrastructure	773,749	760,734	324,435	301,163	1,098,184	1,061,897
	<u>958,857</u>	<u>941,702</u>	<u>353,005</u>	<u>328,919</u>	<u>1,543,702</u>	<u>1,270,621</u>
Accumulated Depreciation	<u>(641,214)</u>	<u>(616,908)</u>	<u>(127,190)</u>	<u>(117,698)</u>	<u>(768,404)</u>	<u>(734,606)</u>
Total Capital Assets, Net	<u>506,029</u>	<u>509,183</u>	<u>269,269</u>	<u>266,264</u>	<u>755,298</u>	<u>775,447</u>

Capital Assets. The County of Maui's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$755.3 million (net of accumulated depreciation). This investment of capital assets includes land, buildings and system, improvements other than buildings, machinery and equipment, infrastructure (roadways and systems, bridges, landfills and sewer systems) and construction-in-progress.

Additional information on the County of Maui's capital assets can be found in Footnote (5) in the Notes to the financial statements for this report.

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Long-term debt. At the end of the current fiscal year, the County of Maui had total bonded debt outstanding of \$226.1 million. Of this amount, \$193.1 million comprised of debt backed by the full faith and credit of the government (general obligations) and \$31.1 million is State Revolving Fund Loans (SRF) which were used to construct the various wastewater treatment facilities in the county.

The County of Maui's total debt decreased by \$12.7 million (-5%) during the current fiscal year. The reason for the decrease was because the county did not issue any 'new money' G. O. Bonds during the year to offset the annual amortization for the G. O. Bonds and SRF Loans of \$15 million. The only offsets to the annual amortization were the \$1 million net amount from the fiscal 2004 refunding and the additional amount of \$2.3 million in SRF Loans for the Wailuku Kahului WWTP Phase II.

During the current fiscal year, the government refinanced some of its existing debt to take advantage of favorable interest rates.

- The County of Maui issued \$15.2 million in General Obligation Refunding Bonds in March 2004 (Series B) to refinance \$14.2 million in previously outstanding general obligation bonds (1997 Series A). The result is a decrease in future debt service payments of \$405,000.

The County of Maui maintains a "AA-" rating from both Standard & Poor's and Fitch Rating and a "Aa3" rating from Moody's Investors Service for general obligation debt.

The State Constitution limits the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The current debt limitation for the County of Maui is \$2.981 billion, which is significantly in excess of the County of Maui's outstanding general obligation debt. As of June 30, 2004 the County's current outstanding debt of \$226 million represents only eight percent (8%) of our debt limitation.

Additional information on the County of Maui's long-term debt can be found in Footnote (6) in the Notes to the financial statements for this report.

Economic Factors and Next Year's Budgets and Rates

- Tourism remains the mainstay of the County's economy, driving other sectors of Maui's economy such as construction and retailing.
- Other sectors of Maui's economy, such as agriculture and the newer film industry, sporting events, and high technology sectors, are also contributing to a more diversified base.

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- Real estate remains steady with increases in the median prices of both condominium re-sales and single family sales.

All of these factors were considered in preparing the County of Maui's budget for the ensuing fiscal year (fiscal 2005).

At the end of the current fiscal year, the unreserved fund balance in the general fund was \$17.8 million. The County of Maui has estimated \$6 million as 'carryover/savings' (unreserved fund balance) for fiscal 2005 budget.

The real property tax rates (per \$1,000 assessed valuation) for fiscal 2005 remained the same as fiscal 2004: Three of the categories, Improved Residential, Apartment, and Unimproved Residential were at \$5.86; Two categories, Agriculture and Conservation were at \$4.93; The Homeowners' classification's rate was \$3.55; Commercial and Industrial classifications were at \$6.75; and the Hotel/Resort class was at \$8.30.

In fiscal 2005 the motor vehicle registration fee was increased from \$14.50 to \$17.50 per vehicle, a 21% increase. Last fiscal year's (fiscal 2004) collections for this fee was \$2.2 million which was up from the previous year (\$1.2 million) because the rate was increased from \$9.50 to \$14.50 per vehicle.

The fee structure for the Examination of Motor Vehicle Operators (Drivers' License Fees) was also increased in fiscal 2005. The fee was increased by about 67% in fiscal 2005. Last year (fiscal 2004) this revenue source amounted to \$0.7 million.

Requests for Information

This financial report is designed to provide a general overview of the County of Maui's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Director of Finance, 200 South High Street, Wailuku, Maui, Hawaii 96793.

County of Maui
Statement of Net Assets
As of June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 2)	\$ 1,274,252	\$ 854,939	\$ 2,129,191
Investments (Note 2)	61,127,288	40,937,799	102,065,087
Receivables (Note 3):			
Property Taxes	4,327,215	-	4,327,215
Federal Government	3,738,009	-	3,738,009
State of Hawaii	7,680,378	-	7,680,378
Trade	2,872,341	4,017,964	6,890,305
Other	644,386	139,417	783,803
Inventory	-	1,531,917	1,531,917
Other current assets	970,747	277,758	1,248,505
Capital assets (Note 5):			
Land	113,955,015	8,786,993	122,742,008
Buildings and systems	67,352,669	4,990,476	72,343,145
Improvements other than buildings	68,279,216	2,776,865	71,056,081
Machinery and equipment	49,476,568	20,802,827	70,279,395
Infrastructure	773,748,792	324,434,858	1,098,183,650
Construction in progress	74,431,592	34,666,925	109,098,517
Accumulated Depreciation	(641,214,390)	(127,190,030)	(768,404,420)
Total Assets	<u>588,664,078</u>	<u>317,028,708</u>	<u>905,692,786</u>
LIABILITIES			
Accounts payable	5,526,206	1,787,263	7,313,469
Deposits	-	1,614,119	1,614,119
Unearned revenue (Note 3)	6,581,287	11,305	6,592,592
Advance collections (Note 3)	3,893,074	546,124	4,439,198
Interest payable	727,992	315,232	1,043,224
Noncurrent liabilities (Note 6):			
Due within one year	27,163,605	2,958,437	30,122,042
Due in more than one year	242,788,922	38,766,096	281,555,018
Total Liabilities	<u>286,681,086</u>	<u>45,998,576</u>	<u>332,679,662</u>
NET ASSETS			
Invested in capital assets, net of related debt	279,902,318	229,689,646	509,591,964
Restricted for:			
Highways and streets	6,846,815	-	6,846,815
Wastewater	2,393,581	-	2,393,581
Capital projects	15,726,078	17,207,807	32,933,885
Other	10,960,744	-	10,960,744
Unrestricted	(13,846,544)	24,132,679	10,286,135
Total Net Assets	<u>\$ 301,982,992</u>	<u>\$ 271,030,132</u>	<u>\$ 573,013,124</u>

The accompanying notes are an integral part of the financial statements.

County of Maui
Statement of Activities
For the Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
General Government	\$ 53,951,552	\$ 5,950,665	\$ -	\$ (39,406,659)	\$ -	\$ (39,406,659)
Public Safety	48,721,955	2,882,910	-	(45,658,307)	-	(45,658,307)
Highway and Streets	38,109,575	-	2,713,773	(27,308,186)	-	(27,308,186)
Sanitation	31,118,458	419,588	1,526,081	4,159,945	-	4,159,945
Social Welfare	33,174,492	17,693,401	-	(13,422,119)	-	(13,422,119)
Culture and Recreation	22,341,274	266,566	285,211	(21,341,887)	-	(21,341,887)
Legislative	3,701,430	-	-	(3,699,843)	-	(3,699,843)
Interest on Long-Term Debt	10,372,993	-	-	(10,372,993)	-	(10,372,993)
Total Governmental Activities	241,491,729	27,213,130	4,525,065	(157,050,049)	-	(157,050,049)
Business-Type Activities:						
Department of Water Supply	31,594,400	-	13,863,757	-	10,004,668	10,004,668
Housing, Interim Financing and Buy-Back Revolving Fund	208,129	-	-	-	(61,831)	(61,831)
Municipal Golf Course	1,609,098	-	-	-	(435,159)	(435,159)
Total Business-Type Activities:	33,411,627	-	13,863,757	-	9,507,678	9,507,678
Total Primary Government	\$ 274,903,356	\$ 27,213,130	\$ 18,388,822	(157,050,049)	9,507,678	(147,542,371)
General Revenues:						
Taxes:						
Property Taxes				116,961,073	-	116,961,073
Transient Accommodation Tax				18,293,780	-	18,293,780
Public Service Corporation Tax				4,819,193	-	4,819,193
Franchise Tax				5,342,577	-	5,342,577
Fuel Tax				12,940,266	-	12,940,266
Interest and Investment Earnings				1,384,637	675,090	2,059,727
Other				27,745	-	27,745
Transfers				96,717	(96,717)	-
Total General Revenues				159,865,988	578,373	160,444,361
			Change in Net Assets	2,815,939	10,086,051	12,901,990
			Net Assets, Beginning of Year	299,167,053	260,944,081	560,111,134
			Net Assets, End of Year	\$ 301,982,992	\$ 271,030,132	\$ 573,013,124

The accompanying notes are an integral part of the financial statements.

**County of Maui
Balance Sheet
Governmental Funds
As of June 30, 2004**

	General Fund	Highway Fund	Wastewater Fund	Grant Fund	Debt Service Fund	Capital Improvement Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents (Note 2)	\$ 119,877	\$ 119,186	\$ 22,479	\$ -	\$ -	\$ 765,668	\$ 247,041	\$ 1,274,251
Investments (Note 2)	5,750,579	5,717,515	1,078,361	-	-	36,729,985	11,850,848	61,127,288
Receivables (Note 3):								
Real property taxes	4,327,215	-	-	-	-	-	-	4,327,215
Trade accounts	-	-	1,609,950	-	-	-	1,262,391	2,872,341
Federal Government	-	-	-	3,630,309	-	107,700	-	3,738,009
State of Hawaii	44,000	1,144,128	-	4,111,536	-	2,380,715	-	7,680,378
Other	-	-	-	171,489	-	472,897	-	644,386
Due from other funds (Note 4)	22,732,496	-	-	-	-	-	-	22,732,496
Total Assets	\$ 32,974,167	\$ 6,980,829	\$ 2,710,790	\$ 7,913,334	\$ -	\$ 40,456,965	\$ 13,360,280	\$ 104,396,365
LIABILITIES AND FUND BALANCES								
Liabilities:								
Vouchers payable	\$ 1,515,612	\$ 134,014	\$ 309,718	\$ 266,289	\$ -	\$ 1,440,830	\$ 235,637	\$ 3,902,100
Contract retention payable	19,116	-	7,491	33,066	-	1,564,432	-	1,624,106
Due to other funds (Note 4)	-	-	-	1,431,881	-	21,300,615	-	22,732,496
Other	-	-	-	-	-	25,820	-	25,820
Deposits and unearned revenue (Note 3)	1,614,706	-	-	6,182,098	-	399,189	405,328	8,601,321
Advance collections (Note 3)	2,134,533	-	-	-	-	-	1,758,541	3,893,074
Total Liabilities	5,283,967	134,014	317,209	7,913,334	-	24,730,887	2,399,506	40,778,917
Fund Balances:								
Reserved for encumbrances	9,846,316	1,827,914	818,755	-	-	26,183,047	1,326,053	40,002,085
Unreserved and reported in:								
General Fund	17,843,884	-	-	-	-	-	-	17,843,884
Special Revenue Fund	-	5,018,901	1,574,826	-	-	-	9,634,721	16,228,448
Capital Projects Fund	-	-	-	-	-	(10,456,969)	-	(10,456,969)
Total Fund Balances	27,690,200	6,846,815	2,393,581	-	-	15,726,078	10,960,774	63,617,448
Total Liabilities and Fund Balances	\$ 32,974,167	\$ 6,980,829	\$ 2,710,790	\$ 7,913,334	\$ -	\$ 40,456,965	\$ 13,360,280	\$ 104,396,365

The accompanying notes are an integral part of the financial statements.

County of Maui
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
As of June 30, 2004

Fund Balance - Total Government Funds	\$ 63,617,448
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	506,029,462
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Unamortized bond issue cost which was expended in the current period in the governmental funds	970,747
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Revenue deferred for governmental fund purposes but recorded as income in governmental activities	2,045,854
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Long-term liabilities, including bonds payable, SRF loans, and interest payable are not reported in the governmental funds	(270,680,519)
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Net Assets Governmental Activities - Government- Wide Financial Statements	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 301,982,992</div>
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The accompanying notes are an integral part of the financial statements.

County of Maui
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004
(Continued)

	General Fund	Highway Fund	Wastewater Fund	Grant Fund	Debt Service Fund	Capital Improvement Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	\$ 121,578,171	\$ 18,282,844	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,861,015
Licenses and permits	5,733,549	7,328,094	9,895	-	-	-	1,928,649	15,000,187
Intergovernmental revenues	18,493,376	-	-	26,570,395	-	2,710,773	1,456	47,776,000
Charges for current services	1,170,265	-	23,934,347	961	-	-	9,704,678	34,810,251
Fines and forfeitures	1,038,109	-	37,300	-	-	-	20,115	1,095,524
Money and property	1,224,188	-	-	3,243	-	311,223	1,658	1,540,311
Assessments	-	-	-	-	-	-	1,794,776	1,794,776
Other	516,267	7,855	19,072	477,177	-	-	1,726,484	2,746,856
Total Revenues	149,753,925	25,618,793	24,000,614	27,051,776	-	3,021,995	15,177,816	244,624,920
EXPENDITURES								
Current:								
General government	46,694,225	-	-	5,953,391	-	-	289,809	52,937,426
Public safety	45,922,609	-	-	2,888,401	-	-	61,994	48,873,004
Highways and streets	919,633	13,539,969	-	-	-	-	436,293	14,895,895
Sanitation	-	-	13,945,440	401,664	-	-	8,487,030	22,834,135
Social welfare	11,127,364	-	-	17,661,971	-	-	1,853,657	30,642,992
Culture and recreation	17,639,056	-	-	275,349	-	-	810,523	18,724,928
Legislative	3,680,844	-	-	-	-	-	-	3,680,844
Capital outlay	-	-	-	-	-	35,057,572	-	35,057,572
Debt service:								
Principal	-	-	-	-	15,013,646	-	-	15,013,646
Interest and other issuance costs	-	-	-	-	10,047,350	-	-	10,047,350
Total Expenditures	125,983,732	13,539,969	13,945,440	27,180,776	25,060,996	35,057,572	11,939,307	252,707,791
Excess (Deficiency) of Revenues Over Expenditures	\$ 23,770,193	\$ 12,078,824	\$ 10,055,174	\$ (129,000)	\$ (25,060,996)	\$ (32,035,577)	\$ 3,238,510	\$ (8,082,871)

The accompanying notes are an integral part of the financial statements.

County of Maui
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004
(Continued)

OTHER FINANCING SOURCES (USES)

	General Fund	Highway Fund	Wastewater Fund	Grant Fund	Debt Service Fund	Capital Improvement Projects Fund	Other Governmental Funds	Total Governmental Funds
Loan Proceeds:								
General Obligation Refunding Bonds	\$ -	\$ -	\$ -	\$ -	\$ 15,719,308	\$ -	\$ -	\$ 15,719,308
State Revolving Fund Loan Proceeds	-	-	-	-	-	2,269,804	-	2,269,804
Loan Payments:								
Payment to escrow for bond refunding	-	-	-	-	(15,551,744)	-	-	(15,551,744)
Transfers In (Note 4):								
General Fund	-	25,000	-	129,000	24,893,431	110,000	3,175,550	28,332,981
Special Revenue Funds	15,208,299	137,703	1,150,000	-	-	5,043,800	1,729,000	23,268,802
Capital Projects Fund	915,987	285,248	-	-	-	3,645,808	74,634	4,921,677
Proprietary Funds	96,717	-	-	-	-	-	-	96,717
Transfers Out (Note 4):								
General Fund	-	(2,431,044)	(9,627,220)	-	-	(915,987)	(3,150,035)	(16,124,286)
Special Revenue Funds	(3,329,550)	(265,000)	(847,703)	-	-	(359,882)	(1,904,000)	(6,706,135)
Debt Service Fund	(24,893,431)	-	-	-	-	-	-	(24,893,431)
Capital Projects Fund	(110,000)	(4,523,800)	(100,000)	-	-	(3,645,808)	(420,000)	(8,799,608)
Total Other Financing Sources and Uses	(12,111,978)	(6,771,893)	(9,424,923)	129,000	25,060,996	6,147,735	(494,851)	2,534,085
Net Change in Fund Balances	11,658,215	5,306,931	630,251	-	-	(25,887,842)	2,743,659	(5,548,786)
Fund Balances, Beginning of Period	16,031,985	1,539,884	1,763,330	-	-	41,613,920	8,217,115	69,166,234
Fund Balances, End of Period	\$ 27,690,200	\$ 6,846,815	\$ 2,393,581	\$ -	\$ -	\$ 15,726,078	\$ 10,960,774	\$ 63,617,448

County of Maui
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-wide Statement of Activities—Governmental Activities
For the Fiscal Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances—total governmental funds	\$ (5,548,786)
Governmental funds report capital outlays as expenditures and do not report depreciation expense. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense	(3,136,047)
The net effect of the retirement of certain general capital assets is to decrease net assets.	(17,450)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt service principal payments (including capital leases) exceed debt proceeds.	12,747,581
Certain expenses related to the accrual of vacation, landfill and claims and judgments and reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(406,575)
Accrued interest reported as an expense in the statement of activities but not reported as an expenditure in the governmental funds.	(493,207)
Certain revenues that were deferred in previous years, were collected and recorded as revenue in the current year for governmental funds. These deferrals were recorded as revenue in previous years in the statement of activities.	(424,707)
Deferred bond issue costs are capitalized and amortized in the government-wide financial statements but recorded as an expenditure in the fund financial statements.	95,130
Change in Net Assets Governmental Activities - Government-Wide Financial Statements	<u>\$ 2,815,939</u>

The accompanying notes are an integral part of the financial statements.

County of Maui
Statement of Fund Net Assets
Proprietary Funds
As of June 30, 2004

	Department of Water Supply	Housing, Interim Financing and Buy-Back Revolving Fund	Golf Course Fund	Total
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 803,883	\$ 40,086	\$ 10,970	\$ 854,939
Investments (Note 2)	38,488,329	1,923,159	526,311	40,937,799
Trade accounts (Note 3)	4,157,381	-	-	4,157,381
Inventory	1,531,917	-	-	1,531,917
Other current assets	218,630	59,128	-	277,758
Total Current Assets	<u>45,200,140</u>	<u>2,022,373</u>	<u>537,281</u>	<u>47,759,794</u>
Noncurrent Assets (Note 5):				
Land	5,983,987	2,427,000	376,006	8,786,993
Building and system	2,938,640	1,743,222	308,614	4,990,476
Improvements other than buildings	-	-	2,776,865	2,776,865
Machinery and equipment	19,966,889	7,203	828,735	20,802,827
Infrastructure	324,434,858	-	-	324,434,858
Construction in progress	34,666,925	-	-	34,666,925
Accumulated depreciation	(124,238,711)	(572,554)	(2,378,765)	(127,190,030)
Total Noncurrent Assets	<u>263,752,588</u>	<u>3,604,871</u>	<u>1,911,455</u>	<u>269,268,914</u>
Total Assets	<u>308,952,728</u>	<u>5,627,244</u>	<u>2,448,736</u>	<u>317,028,708</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	1,746,902	8,673	31,688	1,787,263
Bonds payable -current portion (Note 6)	1,250,428	-	-	1,250,428
Notes payable - current portion (Note 6)	907,432	-	-	907,432
Claims and judgments - current portion (Note 6)	195,392	-	-	195,392
Accrued vacation - current portion (Note 6)	605,185	-	-	605,185
Deposits	453,086	1,161,033	-	1,614,119
Deferred revenue	-	11,305	-	11,305
Advance collections	546,124	-	-	546,124
Interest payable	315,232	-	-	315,232
Total Current Liabilities	<u>6,019,781</u>	<u>1,181,011</u>	<u>31,688</u>	<u>7,232,480</u>
Noncurrent Liabilities (Note 6):				
Claims and judgments	241,754	-	103,789	345,543
Bonds payable - less current portion	30,695,926	-	-	30,695,926
Notes payable	6,938,233	-	-	6,938,233
Accrued vacation	786,394	-	-	786,394
Total Liabilities	<u>44,682,088</u>	<u>1,181,011</u>	<u>135,477</u>	<u>45,998,576</u>
NET ASSETS				
Invested in capital, net of related Debt	224,173,320	3,604,871	1,911,455	229,689,646
Restricted	17,207,807	-	-	17,207,807
Unrestricted net assets	22,889,513	841,362	401,804	24,132,679
Total Net Assets	<u>\$ 264,270,640</u>	<u>\$ 4,446,233</u>	<u>\$ 2,313,259</u>	<u>\$ 271,030,132</u>

The accompanying notes are an integral part of the financial statements.

County of Maui
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

	Department of Water Supply	Housing, Interim Financing, and Buy-Back Revolving Fund	Golf Course Fund	Total Proprietary Funds
Operating Revenues:				
Charges for services	\$ 27,735,311	\$ 146,298	\$ 1,173,939	\$ 29,055,548
Total Operating Revenues	<u>27,735,311</u>	<u>146,298</u>	<u>1,173,939</u>	<u>29,055,548</u>
Operating Expenses:				
Salaries and personnel services	8,584,459	-	664,029	9,248,488
Other operating services	11,574,330	163,916	737,361	12,475,607
Depreciation (Note 5)	9,433,202	44,213	196,971	9,674,386
Total Operating Expenses	<u>29,591,991</u>	<u>208,129</u>	<u>1,598,361</u>	<u>31,398,481</u>
Operating Loss	<u>(1,856,680)</u>	<u>(61,831)</u>	<u>(424,422)</u>	<u>(2,342,933)</u>
Non-Operating Revenues (Expenses)				
Interest and investment earnings	651,134	23,956	-	675,090
Interest expense, net of capitalized interest	(1,913,133)	-	-	(1,913,133)
Other	(89,276)	-	(10,737)	(100,013)
Total Non-Operating Revenues (Expenses)	<u>(1,351,275)</u>	<u>23,956</u>	<u>(10,737)</u>	<u>(1,338,056)</u>
Loss Before Contributions and Transfers	<u>(3,207,955)</u>	<u>(37,875)</u>	<u>(435,159)</u>	<u>(3,680,989)</u>
Transfers out (Note 4)	-	-	(96,717)	(96,717)
Capital Contributions	13,863,757	-	-	13,863,757
Change in Net Assets	10,655,802	(37,875)	(531,876)	10,086,051
Net Assets, Beginning of Year	253,614,838	4,484,108	2,845,135	260,944,081
Net Assets, End of Year	<u>\$ 264,270,640</u>	<u>\$ 4,446,233</u>	<u>\$ 2,313,259</u>	<u>\$ 271,030,132</u>

The accompanying notes are an integral part of the financial statements.

County of Maui
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Business-Type Activities			
		Housing, Interim Financing, and Buy-Back Revolving Fund	Golf Course Fund	Total
	Department of Water Supply			
Cash Flow from Operating Activities:				
Receipts from customers	\$ 28,682,106	\$ 147,888	\$ 1,173,939	\$ 30,003,933
Payments to suppliers	(11,420,481)	(169,063)	(726,048)	(12,315,592)
Payments to employees	(8,584,459)	-	(664,029)	(9,248,488)
Other receipts (disbursements)	(405,224)	-	-	(405,224)
Net cash used in operating activities	<u>8,271,942</u>	<u>(21,175)</u>	<u>(216,138)</u>	<u>8,034,629</u>
Cash Flows from Capital and Related Financing Activities:				
Cash paid for the acquisition and construction of property plant and equipment, including capitalized interest	(8,384,699)	-	(109,594)	(8,494,293)
Principal paid on bonds and notes payable	(11,685,210)	-	-	(11,685,210)
Proceeds from bond issue	7,945,000	-	-	7,945,000
Interest paid on bonds and notes payable, net of capitalized interest	(1,927,389)	-	-	(1,927,389)
Cash received from contributions in aid of construction	9,055,137	-	-	9,055,137
Net cash used in capital and related financing activities	<u>(4,997,161)</u>	<u>-</u>	<u>(109,594)</u>	<u>(5,106,755)</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers - out	-	-	(96,717)	(96,717)
Net cash provided by non-capital financing activities	<u>-</u>	<u>-</u>	<u>(96,717)</u>	<u>(96,717)</u>
Cash Flows from Investing Activities:				
Interest received from investments	651,134	23,956	-	675,090
Change in investments, net	(7,448,184)	32,919	316,140	(7,099,125)
Net cash used in investing activities	<u>(6,797,050)</u>	<u>56,875</u>	<u>316,140</u>	<u>(6,424,035)</u>
Change in Cash, Net	<u>(3,522,269)</u>	<u>35,700</u>	<u>(106,309)</u>	<u>(3,592,878)</u>
Cash, Beginning of Period	<u>4,326,152</u>	<u>4,386</u>	<u>117,279</u>	<u>4,447,817</u>
Cash, End of Period	<u>\$ 803,883</u>	<u>\$ 40,086</u>	<u>\$ 10,970</u>	<u>\$ 854,939</u>
Reconciliation Of Operating Loss To Cash Flows Used In Operating Activities				
Operating loss	\$ (1,856,680)	\$ (61,831)	\$ (424,422)	\$ (2,342,933)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:				
Depreciation	9,433,202	44,213	196,971	9,674,386
Bad debt	(11,170)	-	-	(11,170)
Other	(31,829)	-	-	(31,829)
(Increase) decrease in current assets	981,004	(4,917)	-	976,087
Increase (decrease) in current liabilities	(242,585)	1,360	11,313	(229,912)
Net cash used in operating activities	<u>\$ 8,271,942</u>	<u>\$ (21,175)</u>	<u>\$ (216,138)</u>	<u>\$ 8,034,629</u>

Property contributed as Contribution in Aid of Construction was approximately \$4,809,000 for the fiscal year ended June 30, 2004.

The accompanying notes are an integral part of the financial statements.

County of Maui
Statement of Fiduciary Net Assets
Fiduciary Funds
As of June 30, 2004

	Agency Fund
ASSETS	
Cash and Cash Equivalents (Note 2)	\$ 130,628
Investments (Note 2)	6,266,942
Other Current Assets	1,335,203
Other Non-Current Assets	<u>147,945</u>
Total Assets	<u>7,880,718</u>
LIABILITIES	
Accounts Payable	62,603
Deposits	7,669,220
Due to State	<u>148,895</u>
Total Liabilities	<u>7,880,718</u>
NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

(1) Reporting Entity, Financial Statement Presentation and Summary of Significant Accounting Policies

The accounting policies of the County of Maui, State of Hawaii (the County) conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the financial reporting entity, financial statement presentation and the more significant accounting policies.

The Financial Reporting Entity -

County of Maui -The County is a municipal corporation governed by an elected mayor and a nine-member County Council. The County operates under the Charter of the County of Maui that was last amended in 2002.

The accompanying basic financial statements present all operations of the County, as primary government. The County's governmental activities are organized by the following general functions: management and other, public safety, sanitation, highways and streets, social welfare, culture and recreation, and legislative. The County's business-type activities include the Department of Water Supply, a municipal golf course and the Housing, Interim Financing, and Buy-Back Revolving Fund.

State of Hawaii agencies assume full responsibility for the administration of several major functions usually performed by local governments such as education, welfare, health, and judicial functions. These agencies are not dependent on the County and therefore, are not included in these basic financial statements. There is no separate city, county, or township governments nor any school district, special districts, authorities or public corporations with overlapping authority presented in the accompanying financial statements.

The financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Financial Statement Presentation -

Basis of Accounting/Measurement Focus – The accounts of the County are organized and operated on the basis of funds each of which is considered a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements – The County's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the County accompanied by a total column. Fiduciary and agency type activities are not included in these statements.

These statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the County's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the County are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

The County applies all applicable GASB pronouncements (including NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncement: Financial Accounting Standards Board (FASB) Statement and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activity.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Governmental Fund Financial Statements – Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements. The County has presented all major funds that met those qualifications. In addition, the County has presented certain funds, specifically the Highways Fund, Waste Water Fund and Debt Service Fund, as major funds because the County believes the financial position and activities of these funds are significant to the County as a whole.

The following is a brief summary of the County's major funds –

General Fund – This is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Highway Fund – This fund accounts for operations and maintenance of the County's highways. Funding is provided by the County's fuel tax, public utility franchise tax, and the motor vehicle weight tax. These taxes must be used for highway-related purposes.

Waste Water Fund – This fund accounts for the operations and maintenance of the County's sewer system. Funding is provided by sewer assessment fees.

Grant Fund – This fund accounts for the administration of various Federal and State of Hawaii Grants.

Capital Improvement Projects Fund – This fund accounts for the financial resources to be used for the acquisition or construction of various major capital facilities.

Debt Service Fund – This fund accounts for the accumulation of resources for, and the payment of general long-term principal and interest.

COUNTY OF MAUI

Notes to the financial statements

June 30, 2004

Governmental funds are those through which most governmental functions of the County are financed. The acquisitions, use and balances of the County's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Fund balance is considered a measure of expendable available financial resources. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) as a net increase or decrease in the respective fund balance.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Fund balance is considered a measure of expendable available financial resources. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the County, are real property taxes, fuel and franchise taxes, rents and concessions, sewer charges, landfill usage charges, grants, and interest from investments. Licenses and permits, forfeitures, penalties, and other miscellaneous revenues are not susceptible to accrual, because they are not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements – Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated.

The following is a brief summary of the County's proprietary funds:

Department of Water Supply – The Department was created to develop adequate water sources, storage and transmission for both urban and agricultural uses for the County.

Housing, Interim Financing and Buy-Back Revolving Fund – This fund was established to account for the developing and selling of housing units on land acquired by the County to moderate and low-income residents and to account for financing and operation of low-income rental projects developed by the County.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Golf Course Fund – This fund was established to account for the financing and operation of the County's golf course, pro-shop, and food and liquor concession.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Nets Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenue in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements - Fiduciary Fund Financial Statements include a Statement of Net Assets. These funds account for money received, held and disbursed in a trustee capacity or as an agent for individuals, other governmental units, and other funds. The County's Fiduciary funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results or operations. The Agency funds are accounted for under the accrual basis of accounting as are the proprietary funds explained above.

Fiduciary funds of the County include the following:

Refundable Deposits Fund – this fund is used to account for the bid bond, performance and payment bond, and subdivision bond monies held by the County until the purpose for which the bond was posted is completed.

Agency Trust Fund – These funds are used to account for other monies collected in an agency capacity.

Basis of Accounting -

Basis of accounting refers to the period in which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made, regardless of the measurement focus applied.

COUNTY OF MAUI

Notes to the financial statements

June 30, 2004

Modified Accrual Basis - The modified accrual basis of accounting is used in the fund financial statements. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (that is, both measurable and available). "Measurable" means the amounts are determinable. "Available" means the amounts are collectible within the current period or soon enough thereafter (that is, within 60 days after the fiscal year end) to be used to pay liabilities of the current period.

Revenues susceptible to accrual include real property taxes, fuel and franchise taxes, rents and concessions, sewer charges, and interest from investments. Licenses and permits, forfeitures, penalties, and other miscellaneous revenues are not susceptible to accrual, because they are not measurable until received in cash. Revenues not considered available are recorded as deferred revenues.

In applying the 'susceptible to accrual' concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidelines. There are essentially two types of intergovernmental revenues. For one type of revenue, moneys must be expended for a specific purpose or project, and revenues are recognized to the extent of such expenditures. Revenues of this type are deferred for moneys received in advance of expenditures, and accrued for expenditures in advance of moneys received. For the other type of revenue, moneys are virtually unrestricted as to the purpose of expenditure. These resources are reflected as revenues at the time of receipt or earlier, if the susceptible to accrual criteria are met.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include accrued vacation, claims and judgments, and liabilities related to municipal solid waste landfill closure and post-closure care costs, which are included only in the government-wide financial statements and recognized in the fund financial statements as expenditures when liquidated with current available financial resources; and principal and interest payments for general long-term debt, which are recognized as expenditures when due.

Accrual Basis - The accrual basis of accounting is used by the government-wide and proprietary fund type financial statements. Under this method, revenues are recognized when earned and expenses are recognized when the goods or services have been received or a liability has been incurred.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Budgets and Budgetary Accounting -

On or before March 15th, the Mayor submits to the County Council a proposed operating budget and capital program for the fiscal year commencing the following July 1st. Upon submission, the budget and the capital program are available as public records in the Office of the County Clerk for open inspection. A public hearing is held by the County Council between April 1st and 30th in the year of submission. After the public hearing, the County Council shall pass the budget by ordinance with or without amendment on or before May 31st. If the Council fails to do so, the budget as submitted by the Mayor is deemed legally enacted as the budget for the ensuing fiscal year.

The classification detail upon which the budget is prepared is by fund, department, activity, and sub-object. Certain departments have specific line-item appropriations within a program. The department heads may make transfers between sub-objects and indexes within an activity (line item).

The detail at which expenditures may not legally exceed appropriations without amendment is at the program level or the specific line-item appropriations as shown in the schedules by fund. Any transfers or increase of an appropriation require the approval of the County Council. Transfers within a department are approved by resolution, and transfers between departments and increases or decreases in appropriations are approved by ordinance.

Formal budgetary integration is employed as a management control device during the year. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP basis); except that encumbrances are treated as budgeted expenditures in the year commitments are made. Accordingly, the actual expenditures on a non-GAAP budgetary basis presented in the Required Supplementary Information represent the current year's expenditures as recorded on the modified accrual basis, plus encumbrances at year-end, less expenditures related to amounts encumbered in the prior year. The Required supplementary information reflects the budgeted and actual amounts (non-GAAP budgetary basis) for those funds that have legally adopted annual operating budgets.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

The following is a summary of the adjustments necessary to convert general fund from the GAAP basis to the non-GAAP budgetary basis for the year ended June 30, 2004:

	General Fund	Highway Fund	Wastewater Fund
GAAP Basis - Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ 11,658,215	\$ 5,306,931	\$ 630,251
Less encumbrances of budgeted funds, June 30, 2004	(9,846,316)	(1,827,914)	(818,755)
Add encumbrances to budgeted funds July 1, 2003	<u>11,574,731</u>	<u>950,826</u>	<u>1,226,610</u>
Non-GAAP Budgetary Basis - Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 13,386,630</u>	<u>\$ 4,429,843</u>	<u>\$ 1,038,106</u>

Encumbrances –

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable operating budget appropriation, is employed as an extension of formal budgetary integration in the general fund and in certain special revenue funds. Capital project funds employ encumbrance accounting in order to reserve for construction contracts that portion of the applicable capital projects appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditure or liabilities.

Encumbrances are recorded at the time purchase orders, construction contracts, or other contracts or commitments are awarded, except for contracts awarded contingent upon the availability of non-budget federal or state grant moneys.

Appropriations -

By Charter provision, every appropriation, except an appropriation for capital improvement, shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered by a written contract. Appropriations for capital improvements shall lapse six months after the close of the fiscal year to the extent that they have not been expended or encumbered by a written contract.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Cash and Investments -

Cash includes amounts in demand and time deposits primarily with various financial institutions in Hawaii, with fiscal agents, and in imprest and change funds. Cash on deposit with financial institutions is collateralized in accordance with State statutes (see Note 2). Investments consist of various financial instruments and are stated at fair value, which approximates cost (see Note 2).

For purposes of the statement of cash flows, the enterprise funds, including the component unit, consider all highly liquid investments (including restricted assets) with maturities of three months or less when purchased to be cash equivalents.

Real Property Taxes -

Real property taxes are assessed and billed annually. The County's real property taxes, which are levied on July 1st and billed by July 20th of each year based on assessed valuations as of January 1st, are due in two equal installments on the following August 20th and February 20th. Accordingly, real property tax receivables at June 30, 2004 are delinquent and amounts, if not collected within sixty days after year-end, are reported as deferred revenue in the General Fund. A lien for real property tax is attached as of July 1st of each year. As of June 30, 2004, delinquent real property tax receivables including interest and penalties approximated \$4.3 million.

Housing Projects -

From time to time, the County assists moderate and low-income residents by developing and selling housing units on land acquired by the County. The costs of these housing projects are classified as inventory, which are stated at the lower of cost or estimated net realizable value. The County's policy is to sell these units to qualified residents at a price, which approximates the cost to develop them. The County has a first option to buy back property in the event an owner sells within the first ten years. The buy-back price is computed by a predetermined formula.

Sales of real estate are recorded when title has passed and collectibility is reasonably assured, generally at the time of closing of escrow. Costs of sales are recognized for each unit at the time of sale. Interest expense incurred during the construction period is capitalized and included in project cost.

The County is not currently involved in any such housing projects.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Inventories of Materials and Supplies -

Inventories of materials and supplies are stated at average cost.

Capital Assets -

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, sewer systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized but charged to operations as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following useful lives -

Equipment	3 - 15 years
Transportation and construction equipment	5 - 10 years
Building and land improvements	10 - 50 years
Sewer Systems	20 - 50 years
Roadway Systems	10 - 20 years
Drainage Systems	50 years
Bridges	50 years

Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in the statement of activities.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Internal Balances

Significant transfers of financial resources between departments and activities included within the same fund, which are recorded as revenues by the transferee and expenditures or expenses by the transferor, have been eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as transfers in the fund financial statements.

All inter-fund receivable and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net assets, except for those amounts due between governmental and business-type activities, which are presented as internal balances.

Long-Term Debt -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

For advance refunds resulting in defeasance of debt, the difference between the reacquisition price and the carrying amount of the old debt is deferred. This amount is amortized as a component of interest expense over the remaining life of the old debt or the life of the new, whichever is shorter. The amount deferred is reported as a deduction from or an addition to the new debt liability.

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Compensated Absences -

In the governmental fund financial statements, vacation pay is recorded as expenditures when liquidated with expendable available financial resources. Vested or accumulated vacation leave of proprietary funds and in the government-wide financial statements is recorded as an expense and liability of those funds as the benefits accrue to employees. Vacation benefits accrue at one and three-quarters working days for each month. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. Terminal vacation pay is typically paid from the general fund for governmental activities. As of June 30, 2004 accrued vacation pay under governmental activities was approximately \$16 million.

Sick leave accumulates at the rate of one and three-quarters working days for each month, without limit. Sick leave is taken only in the event of illness and is not convertible to pay; accordingly, sick leave is not accrued on either the government-wide or fund financial statements. Employees who retire or leave government service in good standing with sixty or more unused sick leave days are entitled to an additional service credit in the retirement system. At June 30, 2004, accumulated sick leave amounted to approximately \$42.7 million.

Claims and Judgments -

Liabilities for claims and judgments are estimated by a combination of case-by-case review of all claims and the application of historical experience to the outstanding claims. The County's policy is to record claims and judgments as expenditures in its governmental fund financial statements when they are paid.

Liabilities for claims and judgments are accrued and expensed in the government-wide and proprietary fund, financial statements based on the County's exposure to loss.

Net Assets –

The government-wide and proprietary fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) – This is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding debt related to these assets.

COUNTY OF MAUI

Notes to the financial statements

June 30, 2004

Restricted Net Assets – Restricted net assets (generated from revenues and not bond proceeds) have third party (statutory, bond covenant or granting agency) limitations on their use. The County's policy is generally to use restricted net assets first, as appropriate opportunities arise.

Unrestricted Net Assets – Unrestricted net assets represent all other net assets not accounted for in the two categories noted above.

Retirement Plan Contributions -

The County's contribution to the Employees Retirement System of the State of Hawaii is based upon actuarial computations and includes current service costs and amortization of prior service costs over a period of fifty years from July 1, 1964. The County is required by State statute to fund the actuarially determined pension contribution requirement annually.

Uses Of Estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and other debits and liabilities and other credits, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and other financing sources and uses during the reporting period. Actual results could differ from those estimates.

(2) Deposits and Investments

The County maintains a cash and investment pool that is used by all funds, except the deferred compensation plan agency fund, which is held separately by an independent plan administrator.

Bank time certificates of deposits (TCDs), repurchase agreements (repos) and money market funds with maturity dates of three-months or less at the time of purchase are considered cash and cash equivalents, while TCDs, repos, and money market funds with maturity dates in excess of three months at the time of purchase, and U.S. agency obligations are considered investments for the purpose of financial statement presentation and the statement of cash flows. However, for purpose of the disclosures required by the Governmental Accounting Standards Board Statement No. 3, all TCDs regardless of maturity are considered deposits and all repos and money market funds are considered investments.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Deposits -

The County's deposits are categorized below to give an indication of the level of risk assumed at June 30, 2004. Category 1 includes deposits, which are fully insured or collateralized with securities held by the County or its agent in the County's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the County's name. Category 3 includes cash with fiscal agents, impress, and change funds that are uninsured and un-collateralized.

The cash balances at June 30, 2004 were as follows:

	Category			Bank
	1	2	3	Balances
Primary government	\$ 8,810,991	\$ -	\$ 19,855	\$ 11,783,522
	<u>\$ 8,810,991</u>	<u>\$ -</u>	<u>\$ 19,855</u>	<u>\$ 11,783,522</u>

Information relating to the bank balance of cash deposits is determined for the County and not for individual departments or divisions. Total bank balances of deposits amounted to approximately \$12 million at June 30, 2004 (including approximately \$360,000 reported in restricted assets related to the Department of Water Supply). Approximately \$400,000 was covered by federal depository insurance, with the remaining balance covered by collateral held by the County, or the County's agent in the County's name, and therefore classified as Category 1.

Investments -

State statutes authorize the County to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the State and the County, and bank repurchase agreements.

The County's investments at June 30, 2004 are reflected below. Investments are grouped into three categories - Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name; Category 2 includes investments which are uninsured and unregistered, with securities held by the counter-party's trust department or agent in the County's name; Category 3 includes investments which are uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the County's name.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

The investment balances at June 30, 2004 comprised of U.S. Treasury and U.S. Agency obligations, Student Loan Revenue Bonds and bank repurchase agreements classified in Category 1 in which carrying value approximated fair value as follows:

	Carrying Amount
U.S. Treasury obligations	\$ 7,045,000
U.S. Agency obligations	67,666,000
Student Loan Revenue Bonds	20,050,000
Bank Repurchase Agreements	7,000,000
	<u>\$ 101,761,000</u>

(3) Receivables

Receivables as of June 30, 2004 of the County's major individual funds and non-major funds in the aggregate were as follows:

	General Fund	Highway Fund	Waste Water Fund	Grant Fund	Capital Improvements	Nonmajor Funds	Total Governmental Activities
Taxes	\$ 4,327,215	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,327,215
Intergovernmental	44,000	1,144,128	-	7,741,845	580,597	-	9,510,570
Sewer charges	-	-	1,609,950	-	-	-	1,609,950
Landfill charges	-	-	-	-	-	1,262,391	1,262,391
Other	-	-	-	171,489	472,896	-	644,385
Total receivables	<u>\$ 4,371,215</u>	<u>\$ 1,144,128</u>	<u>\$ 1,609,950</u>	<u>\$ 7,913,334</u>	<u>\$ 1,053,493</u>	<u>\$ 1,262,391</u>	<u>\$ 17,354,511</u>

Receivables as of June 30, 2004 of the County's proprietary funds were as follows:

	Department of Water Supply	Municipal Golf Course	Housing, Interim Financing and Buy-Back Revolving Fund	Total Business-Type Activities
Charge for water services	\$ 4,017,964	\$ -	\$ -	\$ 4,017,964
Other	139,417	-	-	139,417
Total receivables	<u>\$ 4,157,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,157,381</u>

The receivable balance is net of an allowance for doubtful account of approximately \$93,000. In addition, approximately \$4,500 was considered restricted as of June 30, 2004.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2004, the various components of deferred revenue and unearned revenue were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Real Property Taxes not collected within 60 days of year end (General Fund)	\$ 1,614,706	\$ -
Refundable Real Property Taxes (General Fund)	-	2,134,533
Landfill Receivable Fees not collected within 60 days of year end (Nonmajor Fund)	405,328	-
Grant Funds received prior to meeting all necessary requirements (Grant Fund)	-	6,182,098
Capital project grant fund received prior to meeting all necessary requirements (Capital Improvements Projects Fund)	-	399,189
Fees collected for fiscal year June 30, 2005 for refuse collection		1,515,531
	<u>\$ 2,020,034</u>	<u>\$ 10,231,351</u>

(4) Inter-fund Receivables, Payables and Transfers Balances

Amounts due from and due to other funds as of June 30, 2004 were as follows:

	Due From Other Funds	Due to Other Funds
Major Funds:		
General Fund	\$ 22,732,496	\$ -
Capital Improvement Projects Fund	-	21,300,615
Grant fund	-	1,431,881
Total	<u>\$ 22,732,496</u>	<u>\$ 22,732,496</u>

Pursuant to Budget Ordinance, the General Fund advances funds for bond funded projects for which bonds have not yet been issued. The General Fund also provides advances for grant programs in which grant proceeds have not yet been received.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

A summary of inter-fund transfers as of June 30, 2004 are as follows:

	Transfers In	Transfers Out
Major Funds:		
General	\$ 16,221,003	\$ (28,332,981)
Highway	447,951	(7,219,844)
Wastewater	1,150,000	(10,574,923)
Grant Fund	129,000	-
Debt Service	24,893,431	-
Capital Improvements	8,799,608	(4,921,677)
Non-major Funds:		
Bicycle Fund	319,522	(300,000)
Solid Waste Fund	2,848,578	(2,580,035)
Parks Assessment	20,112	(120,000)
County Funds	1,790,972	(1,324,000)
Sewer Assessment	-	(1,150,000)
Proprietary Type-Fund:		
Golf Course	-	(96,717)
Total	<u>\$ 56,620,177</u>	<u>\$ (56,620,177)</u>

The majority of the transfers into the General Fund are for cost allocations for bond funded projects in the respective special revenue funds. The majority of the transfers out of the General fund are for debt service requirements.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

(5) Capital Assets

A summary of capital asset activity of the primary government during the fiscal year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions/ Retirements	Balance June 30, 2004
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 112,955,013	\$ 1,000,000	\$ -	\$ 113,955,013
Construction in progress	71,434,224	35,077,031	(32,079,663)	74,431,592
	<u>184,389,237</u>	<u>36,077,031</u>	<u>(32,079,663)</u>	<u>188,386,605</u>
Depreciable assets:				
Improvements	67,799,963	479,253	-	68,279,216
Buildings and systems	67,352,669	-	-	67,352,669
Equipment	45,814,583	6,202,372	(2,540,385)	49,476,570
Infrastructure	760,734,315	13,212,603	(198,127)	773,748,791
	<u>941,701,530</u>	<u>19,894,228</u>	<u>(2,738,512)</u>	<u>958,857,246</u>
Accumulated depreciation:				
Improvements	29,366,196	3,034,907	-	32,401,103
Buildings and systems	40,791,156	2,676,471	-	43,467,627
Equipment	36,402,518	3,848,286	(2,472,320)	37,778,484
Infrastructure	510,347,937	17,219,240	-	527,567,177
	<u>616,907,807</u>	<u>26,778,904</u>	<u>(2,472,320)</u>	<u>641,214,391</u>
Total Governmental Activities				
Capital Assets, Net	<u>\$ 509,182,960</u>	<u>\$ 29,192,355</u>	<u>\$ (32,345,855)</u>	<u>\$ 506,029,460</u>

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

	Balance July 1, 2003	Additions	Reductions/ Retirements	Balance June 30, 2004
Business-Type Activities				
Non-depreciable assets:				
Land	\$ 8,786,993	\$ -	\$ -	\$ 8,786,993
Construction in progress	46,256,493	6,718,164	(18,307,732)	34,666,925
	<u>55,043,486</u>	<u>6,718,164</u>	<u>(18,307,732)</u>	<u>43,453,918</u>
Depreciable assets:				
Improvements	2,776,865	-	-	2,776,865
Buildings and systems	4,990,476	-	-	4,990,476
Equipment	19,988,794	1,007,067	(193,034)	20,802,827
Infrastructure	301,162,947	23,271,911	-	324,434,858
	<u>328,919,082</u>	<u>24,278,978</u>	<u>(193,034)</u>	<u>353,005,026</u>
Accumulated depreciation:				
Improvements	1,343,396	131,294	-	1,474,690
Buildings and systems	2,489,765	140,312	-	2,630,077
Equipment	6,962,243	977,520	(182,295)	7,757,468
Infrastructure	106,902,535	8,425,260	-	115,327,795
	<u>117,697,939</u>	<u>9,674,386</u>	<u>(182,295)</u>	<u>127,190,030</u>
Total Business-Type Activities				
Capital Assets, Net	<u>\$ 266,264,629</u>	<u>\$ 21,322,756</u>	<u>\$ (18,318,471)</u>	<u>\$ 269,268,914</u>

Depreciation expense for the year ended June 30, 2004 was charged to functions as follows:

Governmental Activities:

General Government	\$ 859,471
Public Safety	2,676,938
Highways and Streets	10,578,514
Sanitation	7,991,233
Social Welfare	507,165
Culture and Recreation	4,144,997
Legislative	20,586
Total Governmental Activities	<u>\$ 26,778,904</u>

Business-Type Activities:

Golf Course	\$ 196,971
Housing Interim Financing	44,213
Department of Water Supply	9,433,202
Total Business-Type Activities	<u>\$ 9,674,386</u>

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Construction in progress is comprised of the following:

	Project Authorized (Appropriated)	Expended to June 30, 2004	Committed (Encumbered)
Governmental Activities:			
Government Facilities	\$ 40,741,862	\$ 26,097,733	\$ 8,977,530
Roadway Systems	24,457,155	12,355,331	7,194,413
Sewer Systems	8,529,009	6,393,395	1,798,773
Sanitation	14,215,940	13,177,087	257,343
Parks and Recreation	15,341,693	12,921,659	2,318,136
Drainage	<u>5,773,541</u>	<u>3,486,387</u>	<u>2,071,153</u>
Totals	<u>\$ 109,059,200</u>	<u>\$ 74,431,592</u>	<u>\$ 22,617,348</u>
	Project Authorized (Appropriated)	Expended to June 30, 2003	Committed (Encumbered)
Business-Type Activities			
Department of Water Supply	\$ 65,839,881	\$ 34,666,925	\$ 6,080,280
Totals	<u>\$ 65,839,881</u>	<u>\$ 34,666,925</u>	<u>\$ 6,080,280</u>

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

(6) Long-Term Debt and Other General Obligations

The following is a summary of long-term debt transactions of the County as of June 30, 2004.

Long-Term Debt –

	Balance July 1, 2003	Additions	Reductions/ Payments	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 208,294,608	\$ 15,012,588	\$ 28,245,779	\$ 195,061,417	\$ 14,841,572
State Revolving Fund Loans	30,733,161	2,269,804	1,937,238	31,065,727	2,026,047
Obligations under capital leases (Note 7)	128,487	247,439	94,395	281,531	88,237
Total	<u>\$ 239,156,256</u>	<u>\$ 17,529,831</u>	<u>\$ 30,277,412</u>	<u>\$ 226,408,675</u>	<u>\$ 16,955,856</u>
Business Type Activities					
General Obligation Bonds	\$ 34,700,987	\$ 7,945,000	\$ 10,699,633	\$ 31,946,354	\$ 1,250,428
Notes payable	8,720,928	-	875,263	7,845,665	907,432
Total	<u>\$ 43,421,915</u>	<u>\$ 7,945,000</u>	<u>\$ 11,574,896</u>	<u>\$ 39,792,019</u>	<u>\$ 2,157,860</u>

Governmental Activities General Obligation Bonds And Revolving Loans -

The County issues general obligation bonds for the construction of major capital facilities. General obligation bonds are direct obligations of the County for which its full faith and credit are pledged. Debt service is paid from the debt service fund.

COUNTY OF MAUI

Notes to the financial statements

June 30, 2004

General obligation bonds payable reported in the Governmental Activities column of net assets at June 30, 2004 are comprised of the following individual issues:

Year	Description	Interest Rates	Original Issue Amount	Final Maturity	Outstanding Balance June 30, 2004
1982	Farmers Home Administration	5.00%	\$ 1,500,000	2016	\$ 833,500
1998	Series A GO and Refunding	2.50%-5.00%	39,285,000	2018	31,965,000
1998	Series A GO Bonds	6.11%-6.50%	4,255,000	2013	3,130,000
1999	Series A GO Bonds	4.00%-6.38%	11,600,000	2019	10,270,000
2001	Series A GO and Refunding	4.00%-5.50%	23,485,000	2021	20,935,000
2001	Series B and C Refunding	3.00%-5.25%	29,880,000	2020	25,930,000
2002	Series A GO Bonds	3.125%-5.375%	25,000,000	2022	25,000,000
2002	Series B Refunding	2.500%-5.375%	13,550,000	2013	12,515,000
2002	Series C GO and Refunding	2.125%-4.75%	12,402,689	2021	11,964,863
2003	Series A,B,C,D GO and Refunding	3.00%-5.00%	38,489,858	2010	38,489,858
2004	Series B Refunding	2.00%-5.00%	15,165,000	2018	15,165,000
Total General Obligation Bonds			<u>\$ 214,612,547</u>		196,198,221
Unamortized Premium					4,195,363
Unamortized Deferral on Advance Refunding					(5,332,167)
Net Bonds Outstanding					<u>\$ 195,061,417</u>

Generally accepted accounting principals require that bond discounts and premiums, issuance costs, and the difference between the reacquisition price and the carry amount of old debt in advance refunding resulting in a defeasance of debt, be deferred and amortized. The following summarizes the Governmental Activity deferrals as of June 30, 2004.

Governmental Activities:	
General Obligation Bond Outstanding Balance	\$ 196,198,221
Unamortized Premium	4,195,363
Unamortized deferrals on advanced refundings	<u>(5,332,167)</u>
Net Bonds outstanding	195,061,417
State Revolving Loans	31,065,727
Capital Lease Obligations	281,531
Total Long-Term Obligations	<u>\$ 226,408,675</u>

Deferred bond issuance costs for the Governmental Activities as of June 30, 2004 was \$970,747.

The State revolving fund loans are for the construction of necessary treatment works, and for wastewater reclamation projects. The notes original issue amounted to \$42.1 million and outstanding principal amounted to \$31.1 million at June 30, 2004, and bear interest at 3.34% to

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

3.60%. The loans require semi-annual principal, and interest payments and loan fees through fiscal year 2023. The County has ten projects funded with these loans. The schedule below shows the loans outstanding as of June 30, 2004:

Year	Description	Loan Number	Original Issue Amount	Final Maturity	Outstanding Balance June 30, 2004
1992	Lahaina Design	C150054-04	\$ 500,000	2011	\$ 225,886
1994	Wailuku/Kahului	C150052-14	4,825,074	2013	2,707,256
1995	Lahaina Construction	C150054-05	7,381,497	2013	4,124,319
1997	Lahaina Pump Station #3	C150054-07	2,644,416	2016	1,786,908
1997	Kihei Phase IIB	C150077-06	9,018,078	2016	6,142,422
1998	Kihei Reuse Core Distribution	C150077-09	3,231,080	2017	2,429,355
1999	Lahaina Pump Station #17	C150077-17	600,000	2018	460,551
2001	Kuhua Camp	C150054-14	1,745,481	2020	1,514,613
2002	Lahaina Solids	C150054-20	1,290,400	2021	1,198,506
2003	Wailuku/Kahului Phase II	C150052-16	10,880,100	2023	10,475,911
			<u>\$ 42,116,126</u>		<u>\$ 31,065,727</u>

Annual debt service requirements to maturity for these general obligation bonds and State revolving fund loans at June 30, 2004, were as follows:

Year Ending June 30,	Governmental Activities General Obligation Bonds		
	Principal	Interest	Total
2005	\$ 14,841,572	\$ 8,847,281	\$ 23,688,853
2006	15,356,304	8,326,449	23,682,753
2007	15,979,135	7,704,123	23,683,258
2008	15,468,396	7,031,311	22,499,707
2009	14,024,314	6,385,701	20,410,015
2010-2014	60,579,000	23,186,960	83,765,960
2015-2019	46,694,500	9,903,858	56,598,358
2020-2022	13,255,000	1,115,381	14,370,381
Total	<u>\$ 196,198,221</u>	<u>\$ 72,501,064</u>	<u>\$ 268,699,285</u>

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Notes to the financial statements June 30, 2004

Year Ending June 30,	Governmental Activities SRF Loans		
	Principal	Interest	Total
2005	\$ 2,026,047	\$ 1,068,873	\$ 3,094,920
2006	2,078,209	1,008,956	3,087,165
2007	2,132,729	946,491	3,079,220
2008	2,186,071	885,003	3,071,074
2009	2,242,191	820,537	3,062,728
2010-2014	11,467,493	2,961,742	14,429,235
2015-2019	6,312,494	1,088,321	7,400,815
2020-2023	2,620,493	173,862	2,794,355
Total	<u>\$ 31,065,727</u>	<u>\$ 8,953,785</u>	<u>\$ 40,019,512</u>

General obligation bonds are generally subject to early redemption by the County for a premium.

In March 2004, the County issued approximately \$15.165 million in General Obligation Refunding Bonds with interest rates of 2.00% to 5.00%. These bonds, 2004 Series B, were issued to refund the bonds outstanding for 1997 Series A (\$14.23 million).

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1.322 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized through the year 2018. The County completed the refunding to reduce its total debt service payments over the next 14 years by \$405,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$310,000.

Business-Type Activities General Obligation Bonds And Notes Payable –

The Department of Water Supply (Department) issues general obligation bonds for the construction of major capital facilities. General obligation bonds are direct obligations of the County for which its full faith and credit are pledged.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

General obligation bonds payable reported in the Governmental Activities column of net assets at June 30, 2004 are comprised of the following individual issues:

Year	Description	Interest Rates	Final Maturity	Outstanding Balance June 30, 2004
1993	Series F GO and Refunding Bonds	3.90%-6.00%	12/15/2011	\$ 11,965,000
1998	Series C GO and Refunding	4.60%-5.375%	3/1/2018	9,535,000
2002	Series C GO and Refunding	2.125%-3.125%	9/1/2008	265,137
2003	Series Aand C GO and Refunding	3.00%-5.00%	9/1/2007	2,635,142
2004	Series F GO and Refunding Bonds	2.00%-4.00%	9/1/2011	7,945,000
	Total General Obligation Bonds			32,345,279
	Unamortized Premium			586,358
	Unamortized Deferral on Advance Refunding			(985,283)
	Net Bonds Outstanding			<u>\$ 31,946,354</u>

Annual debt service requirements to maturity for these general obligation bonds at June 30, 2004, were as follows:

Business-Type Activities General Obligation Bonds			
Year ending June 30:	Principal	Interest	Total
2005	\$ 1,250,428	\$ 1,516,843	\$ 2,767,271
2006	3,413,696	1,410,348	4,824,044
2007	3,603,865	1,220,861	4,824,726
2008	4,937,604	1,010,508	5,948,112
2009	4,719,686	791,637	5,511,323
2010-2014	11,005,000	1,747,687	12,752,687
2015-2018	3,415,000	456,705	3,871,705
Total	<u>\$ 32,345,279</u>	<u>\$ 8,154,589</u>	<u>\$ 40,499,868</u>

The Department redeemed \$7,845,000 of the General Obligation Refunding Bonds, 1993 Series F issue prior to their maturity. The redemption price was 101% of the face value.

Generally accepted accounting principals require that bond discounts and premiums, issuance costs, and the difference between the reacquisition price and the carry amount of old debt in advance refunding resulting in a defeasance of debt, be deferred and amortized.

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Notes to the financial statements June 30, 2004

The following summarizes the Departments deferrals as of June 30, 2004.

Business-Type Activities:		
General Obligation Bond Outstanding Balance	\$	32,345,279
Unamortized Premium		586,358
Unamortized deferrals on advanced refundings		<u>(985,283)</u>
Net Bond Outstanding		31,946,354
Notes payable		<u>7,845,665</u>
Total Long-Term Obligations	\$	<u><u>39,792,019</u></u>

Deferred bond issuance costs for the Department as of June 30, 2004 was approximately \$219,000.

At June 30, 2004, notes payable of the Department consisted of the following:

Note payable to Municipal Services Group, Inc. for meter replacement payable in semi-annual installments of principal and interest of \$302,076 at 5.15% interest, maturing 2006.	\$ 1,400,368
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Note payable to State Revolving Loan Fund for a capital improvement project payable in semi-annual installment of principal, interest, and loan fees of \$272,000 to \$353,000 at an interest rate of 1.55% and loan fee rate of 3.25%, maturing 2019.	<u>6,445,297</u>
	<u><u>\$ 7,845,665</u></u>

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Annual debt service requirements of these notes at June 30, 2004, including interest of approximately \$2.7 million were as follows:

Year end June 30,	Business-Type Activities Notes Payable		
	Principal	Interest	Total
2005	\$ 907,980	\$ 370,080	\$ 1,278,060
2006	941,660	324,359	1,266,019
2007	674,990	276,729	951,719
2008	386,281	250,948	637,229
2009	392,560	232,064	624,624
2010-2014	2,055,658	871,360	2,927,018
2015-2019	2,220,644	360,424	2,581,068
2020	265,894	6,398	272,292
	<u>\$ 7,845,667</u>	<u>\$ 2,692,362</u>	<u>\$ 10,538,029</u>

Refunded Bonds -

In prior years, the County defeased certain general obligation and water revenue bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the assets of the irrevocable trust and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2004, approximately \$43.9 million of bonds outstanding were considered defeased.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Other General Obligations -

Other long-term general obligations, including long-term debt, of the County as June 30, 2004 were as follows:

	Balance July 1, 2003	Additions	Reductions/ Payments	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Accrued Vacation	\$ 15,120,032	\$ 7,531,129	\$ 6,634,009	\$ 16,017,152	\$ 6,965,709
Claims and Judgements	10,265,835	2,072,216	3,362,577	8,975,474	3,242,040
Accrued Landfill Closure Cost (Note 8)	<u>17,751,411</u>	<u>799,816</u>	<u>-</u>	<u>18,551,227</u>	<u>-</u>
Total - Other General Obligations	43,137,278	10,403,161	9,996,586	43,543,853	10,207,749
Long-Term Debt	<u>239,156,256</u>	<u>17,529,831</u>	<u>30,277,412</u>	<u>226,408,675</u>	<u>16,955,856</u>
Total Non-Current Liabilities	<u>\$ 282,293,534</u>	<u>\$ 27,932,992</u>	<u>\$ 40,273,998</u>	<u>\$ 269,952,528</u>	<u>\$ 27,163,605</u>
Business-Type Activities:					
Accrued Vacation	\$ 1,408,201	\$ 654,309	\$ 670,931	\$ 1,391,579	\$ 605,185
Claims and Judgements	<u>654,789</u>	<u>88,628</u>	<u>202,482</u>	<u>540,935</u>	<u>195,392</u>
Total - Other General Obligations	2,062,990	742,937	873,413	1,932,514	800,577
Long-Term Debt	<u>43,421,915</u>	<u>7,945,000</u>	<u>11,574,896</u>	<u>39,792,019</u>	<u>2,157,860</u>
Total Non-Current Liabilities	<u>\$ 45,484,905</u>	<u>\$ 8,687,937</u>	<u>\$ 12,448,309</u>	<u>\$ 41,724,533</u>	<u>\$ 2,958,437</u>

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

(7) Capital Leases

The County leases equipment under capital leases with interest rates of 11.50% and 15.00%, which expire at various dates through January 2009. Future minimum obligations under capital leases as of June 30, 2004 were as follows:

Minimum lease payments	\$ 281,531
Less amount representing interest	<u>50,318</u>
Present value of future minimum lease payments	<u>\$ 231,213</u>

(8) Solid Waste Landfill Closure and Post-closure Care Costs

The provisions of GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs," requires that the County recognize closure and post-closure care costs over the life of the landfill. The County owns and operates four landfills. State and federal laws require the County to monitor and maintain each site for thirty years after the facility is closed. Although the closure and post-closure care costs will be paid only near and after the date that the landfill stops accepting waste, the County recognizes a portion of the closure and post-closure care costs in each operating period. The liability for these costs is included in the governmental activities column of the Government-Wide financial statements. The amount recognized each year is based on the landfill capacity used as of the balance sheet date.

The \$18,557,227 as accrued landfill closure costs at June 30, 2004 represents the cumulative amount reported to date based on the estimated capacity used at each landfill. The County will recognize the remaining estimated cost of closure and post-closure care of \$8,328,000, as the remaining estimated capacity of each landfill is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2004. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The capacity used to date and the estimated remaining life of each landfill is as follows:

Landfill	Capacity Used	Remaining Life Years
Central Maui	94%	1(a)
Hana	21%	75
Molokai	35%	20
Lanai	88%	5

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

- (a) Represents phase I and II only. These phases are scheduled to be closed during calendar 2005. Phase IV to open thereafter.

Federal regulations require owners and operators of landfills to demonstrate financial assurance for the costs of closure, and post-closure care. Under the proposed federal rules for financial assurance mechanism available to local governments, the County's current investment grade bond ratings of AA3 and AA- by Moody's and Standard and Poor's, respectively, exceed the required rating.

(9) Retirement Benefits

Defined Benefit Pension Plans -

All full-time employees of the County are eligible to participate in the Employees' Retirement System of the State of Hawaii (ERS), a cost sharing, multiple-employer public employee retirement system covering eligible employees of the State and counties.

The ERS is composed of a contributory retirement plan and a non-contributory retirement plan. Eligible employees who are in service and a member of the existing contributory plan on June 30, 1984, were given an option to remain in the existing plan or join the non-contributory plan, effective January 1, 1985. All new eligible employees hired after June 30, 1984, automatically become members of the non-contributory plan. Both plans provide death and disability benefits and cost of living increases. Benefits are established by State statute.

In the contributory plan, employees may elect normal retirement at age 55 with 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching five years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by State statute to contribute 7.8% of their salary to the plan; the County is required by State statute to contribute the remaining amounts necessary to pay contributory plan benefits when due.

In the non-contributory plan, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching ten years of service; retirement benefits are actuarially reduced for early retirement. The County is required by State statute to contribute all amounts necessary to pay non-contributory plan benefits when due.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

The County's contributions to the ERS for the years ended June 30, 2004, 2003, and 2002 were \$7,134,000; \$4,266,000; and \$6,758,500, respectively, equal to the required contributions for each year.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees' Retirement System, 201 Merchant Street, Suit 1400, Honolulu, Hawaii 96813-2929 or by calling (808)586-1660.

Post Retirement Health Care and Life Insurance Benefits -

In addition to providing pension benefits, the State of Hawaii Public Employer-Union Health Benefit Trust Fund provides certain health care (medical, prescription drug, vision and dental) and life insurance benefits for retired County employees. Contributions are based upon negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The County pays for 100% of these benefits for employees who have at least 10 years of service. The County's share of the cost of these benefits is pro-rated for employees with less than 10 years of service. The County also reimburses Medicare expenses of retirees and qualified spouses (through the State of Hawaii) who are at least 62 years of age and have at least 10 years of service. Currently, approximately 907 retirees and surviving spouses are receiving post retirement health care (including Medicare) and life insurance benefits paid for by the County. County contributions for post retirement benefits, which are funded as accrued, approximated \$6,043,000 for the year ended June 30, 2004.

Deferred Compensation Plan -

The County participates in the Deferred Compensation Plan established by the State of Hawaii in accordance with Internal Revenue Code Section 457. The plan is available to all the County employees, including its component unit, and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Governmental Accounting Standards Board (GASB) Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," is required when plan assets are held in trust under the requirements of the Internal Revenue Code (IRC) Section 457, subsection (g). Subsection (g) requires that all amounts of compensation deferred under the plan as well as property and rights purchased with those amounts and income attributable to those amounts, be held in trust for the exclusively benefit of participants and their beneficiaries. Effective July 1, 1998, the County adopted the requirements of the IRC Section 457, subsection (g).

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

GASB Statement No. 32 requires deferred compensation plans to be reported as an expendable trust if they meet the fiduciary fund criteria defined in National Council on Governmental Accounting (NCGA) Statement 1. The County's deferred compensation plan does not meet those criteria. Accordingly, the assets and liabilities under the deferred compensation plan (\$46 million at June 30, 2004) are not reported in the County's financial statements as of June 30, 2004 in accordance with the provisions of GASB Statement No. 32.

(10) Commitments and Contingencies

Claims and Judgments -

The County is completely self-insured for worker' compensation. The County has public entity liability insurance coverage for general and automobile liability claims in excess of \$500,000 up to \$15 million per occurrence. In addition, the County also has insurance for errors and omissions and employer's practice liability, with a \$500,000 deductible per occurrence up to \$15 million aggregate. The County has \$75 million insurance coverage for property and \$25 million for boiler and machinery.

Settled claims have not exceeded these coverages in any of the past three fiscal years. The estimated total liability of the County of \$9.0 million, with respect to claims and judgments, including claims incurred but not reported by the claimant and settled claims for which funds have not yet been appropriated, is presented on the Statement of Net Assets on the Government-Wide Financial Statements.

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

Changes in the claims and judgments liability account as of June 30, 2003 and 2002 were as follows:

2004 - Claims and Changes in Estimates

	Balance July 1, 2003	Change to Estimate Additions/ (Reductions)	Claim Payments	Balance June 30, 2004
Governmental Activities:				
Workers' compensation	\$ 3,149,776	\$ 2,349,902	\$ 2,468,711	\$ 3,030,967
Automobile, general liability and other	7,116,059	(277,686)	893,866	5,944,507
	<u>\$ 10,265,835</u>	<u>\$ 2,072,216</u>	<u>\$ 3,362,577</u>	<u>\$ 8,975,474</u>
Business-Type Activities:				
Workers' compensation	\$ 626,307	\$ 64,628	\$ 195,000	\$ 495,935
Automobile, general liability and other	28,482	24,000	7,482	45,000
	<u>\$ 654,789</u>	<u>\$ 88,628</u>	<u>\$ 202,482</u>	<u>\$ 540,935</u>

2003 - Claims and Changes in Estimates

	Balance July 1, 2002	Change to Estimate Additions/ (Reductions)	Claim Payments	Balance June 30, 2003
Governmental Activities:				
Workers' compensation	\$ 4,622,573	\$ 750,789	\$ 2,223,586	\$ 3,149,776
Automobile, general liability and other	1,914,341	6,099,624	897,906	7,116,059
	<u>\$ 6,536,914</u>	<u>\$ 6,850,413</u>	<u>\$ 3,121,492</u>	<u>\$ 10,265,835</u>
Business-Type Activities:				
Workers' compensation	\$ 633,159	\$ 24,680	\$ 31,532	\$ 626,307
Automobile, general liability and other	183,201	(131,517)	23,202	28,482
	<u>\$ 816,360</u>	<u>\$ (106,837)</u>	<u>\$ 54,734</u>	<u>\$ 654,789</u>

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

The estimated total liability has been determined through case-by-case analysis and from historical experience performed by the County's risk management division. Estimated expenditures for such claims are appropriated annually in the general fund with the exception of workers' compensation, which is appropriated annually in the fund that employed the injured worker.

Because of the inherent uncertainties in estimating future projected liabilities of claims and judgments, it is at least reasonably possible that the estimates used may change within the near term.

Grants -

The County has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. In the opinion of management of the County, disallowed costs, if any, would not be material.

(11) Business Type Activity - Department of Water Supply

The Charter of the County of Maui provides that the Department is a regular County of Maui agency subject to the Mayor's executive management and Council's legislative oversight.

Unrestricted Cash and Investments -

Unrestricted cash, cash equivalents, and investments at June 30, 2004 include funds for the following purposes:

<i>Designated:</i>	
Capital Improvements	\$ 13,638,585
Debt service	2,473,091
Claims and judgements	500,000
Total board-designated	<u>16,611,676</u>
<i>Undesignated</i>	<u>4,883,814</u>
Total	<u><u>\$ 21,495,490</u></u>

At June 30, 2004 construction contracts payable, including retention, to be paid with designated funds were approximately \$166,000. The unbilled portion of construction contracts outstanding as of June 30, 2004 to be paid with designated funds aggregated approximately \$1.4 million. Included in the unbilled contract amounts for 2004 are approximately \$103,000 for compliance-

COUNTY OF MAUI

Notes to the financial statements

June 30, 2004

order projects to get the water system up to Environmental Protection Agency standards. At June 30, 2004 the Department's management estimates an additional \$7 million will be needed to complete the compliance projects.

Restricted Assets -

Restricted assets consisted of the following at June 30, 2004:

Cash with the County's Treasury:

Source development fund assessments	\$	18,142
Special assessment fund for storage		16,258
Water system development fee		314,896
Contributions in aid of construction from developers		983
Construction fund - 1989 G.O. Bonds		844
Private funds		988
Customer deposits		7,063
1998 G. O. Bonds		4,317
Federal funds		(107)
Total cash with the County's Treasury		<u>363,384</u>

Investments with the County's Treasury:

Source development fund assessments	870,348
Special assessment fund for storage	779,961
Water system development fee	15,107,121
Contributions in aid of construction from developers	47,169
Construction fund - 1989 G.O. Bonds	40,478
Private funds	47,419
Customer deposits	338,846
1998 G. O. Bonds	207,113
Federal funds	(5,117)
Total investments with the County's Treasury	<u>17,433,338</u>
Water system development fee receivable	4,523
Total	<u><u>\$ 17,801,245</u></u>

COUNTY OF MAUI

Notes to the financial statements June 30, 2004

At June 30, 2004, construction contracts payable, including retention, to be paid with restricted assets were approximately \$279,000. The unbilled portion of construction contracts as of June 30, 2004 to be paid with restricted assets approximated \$4.7 million.

Restricted Net Assets --

At June 30, 2004, restricted net assets consisted of the following:

Source Development Fund Assessments	\$ 888,490
Special Assessment Fund for Storage	796,219
Water System Development Fees	15,422,016
Contributions in Aid of Construction from -	
Developers	48,152
Private Funds	48,407
Water System Development Fees Receivable	<u>4,523</u>
Total Restricted Net Assets	<u>\$ 17,207,807</u>

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APPENDIX B

FORM OF LEGAL OPINION

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APPENDIX B
FORM OF LEGAL OPINION

[Closing Date], 2005

County of Maui
Wailuku, Maui, Hawaii

Re: County of Maui General Obligation Bonds,
2005 Series A, B and C
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County of Maui (the “County”) of \$21,000,000 aggregate principal amount of County of Maui General Obligation Bonds, 2005 Series A, \$28,105,000 aggregate principal amount of County of Maui General Obligation Bonds, 2005 Series B and \$10,195,000 aggregate principal amount of County of Maui General Obligation Bonds, 2005 Series C (collectively, the “Bonds”), pursuant to the provisions of Chapter 47, Hawaii Revised Statutes (the “Act”), a Certificate of the Director of Finance of the County dated January 6, 2005 (the “Certificate”), and bond authorizing ordinances adopted by the Council of the County and identified in the Certificate (the “Bond Ordinances”). Bond Ordinance No. 2965 provides that the Bonds are issued for the purpose, among other things, of making a loan of a portion of the proceeds thereof to Maui Economic Concerns of the Community, Inc., a non-profit Hawaii corporation (the “Borrower”).

In such connection, we have reviewed the Bond Ordinances, the Certificate, the Tax Certificate of the County, dated the date hereof (the “Tax Certificate”), an opinion of the Corporation Counsel of the County, an opinion of counsel to the Borrower, certificates of the County, the Borrower and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of _____, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business

activities of the Borrower within the meaning of Section 513 of the Code, could negatively affect several of the opinions and conclusions set forth below.

Certain agreements, requirements and procedures contained or referred to in the Bond Ordinances, the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, refunding of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Ordinances, the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Ordinances, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding general obligations of the County.
2. The Certificate has been duly executed and delivered by the Director of Finance; and the Certificate constitutes the valid and binding obligation of the County.

3. Under the Act, the County is obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the Bonds and the interest thereon, upon all the real property within the County subject to taxation by the County.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX C

**FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

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APPENDIX C
FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the County of Maui (the “County”) in connection with the issuance of its \$59,300,000 County of Maui General Obligation Bonds, 2005 Series A, B and C. The Bonds are being issued pursuant to a Certificate of the Director of Finance of the County, dated January 6, 2005 (the “Issuance Certificate”) and the Bond Ordinances identified therein. The County covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the County for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Issuance Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Business Day” means any day other than a Saturday, Sunday or other day on which County offices generally are not open for business.

“Dissemination Agent” means the County, or any successor Dissemination Agent designated in writing by the County and which has filed with the County a written acceptance of such designation.

“Holder” or “Bondholder” means any registered owner of Bonds as shown on the books of registration kept by the Registrar.

“Listed Events” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as approved by the Securities and Exchange Commission from time to time and identified in its Nationally Recognized Municipal Securities

Information Repository Address List at www.sec.gov/info/municipal/nrmsir.htm or in such other publication or release of the Commission as may be in effect at the time in question.

“Official Statement” means the Official Statement of the County dated January 6, 2005, relating to the Bonds.

“Participating Underwriter” means any “participating underwriter” of the Bonds within the meaning of the Rule required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of Hawaii.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The County shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of each fiscal year of the County (presently June 30), commencing with the report for the fiscal year ending June 30, 2005, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the County may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the County’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to said date, the County shall provide the Annual Report to the Dissemination Agent (if other than the County). If the County is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the County shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the County), file a report with the County certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The County's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the County for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the County's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Information of the type included in the Official Statement under the captions "Debt Service Schedule," Tables 4 and 5 under "Debt Information," Tables 6, 7, 8, 9 and 13 under "Financial Information" and the County's share of the State Retirement System costs under "THE COUNTY OF MAUI - Pensions," in each case to the extent such information is historical and not projections.

The County has not undertaken in this Disclosure Certificate to provide all information an investor may want to have in making decisions to buy, hold or sell the Bonds, but only to provide the information specified above. Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;

5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; or
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the County obtains knowledge of the occurrence of a Listed Event, the County shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the County determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the County shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Issuance Certificate.

SECTION 6. Termination of Reporting Obligation. The County's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the County shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the County.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of a majority in aggregate principal amount of the Bonds, or (ii) does not, in the opinion of the County, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the County to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Issuance Certificate or the Bond Resolutions, and the sole remedy under this Disclosure Certificate in the event of any failure of the County to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder,

including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: _____, 2005.

COUNTY OF MAUI

By _____
Director of Finance

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: County of Maui

Name of Bond Issue: County of Maui, General Obligation Bonds, 2005 Series A, B and C

Date of Issuance: January 6, 2005

NOTICE IS HEREBY GIVEN that the County has not provided an Annual Report with respect to the above-named Bonds as required by Section 503 of the Certificate of the Director of Finance of the County of Maui dated January 6, 2005, providing for the issuance of such Bonds. [The County anticipates that the Annual Report will be filed by _____.]

Dated:_____.

COUNTY OF MAUI

By _____
Title:

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APPENDIX D

SPECIMEN BOND INSURANCE POLICY

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APPENDIX D

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

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